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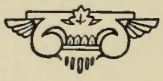

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THESIS

WAR AND THE GERMAN ECONOMY

by

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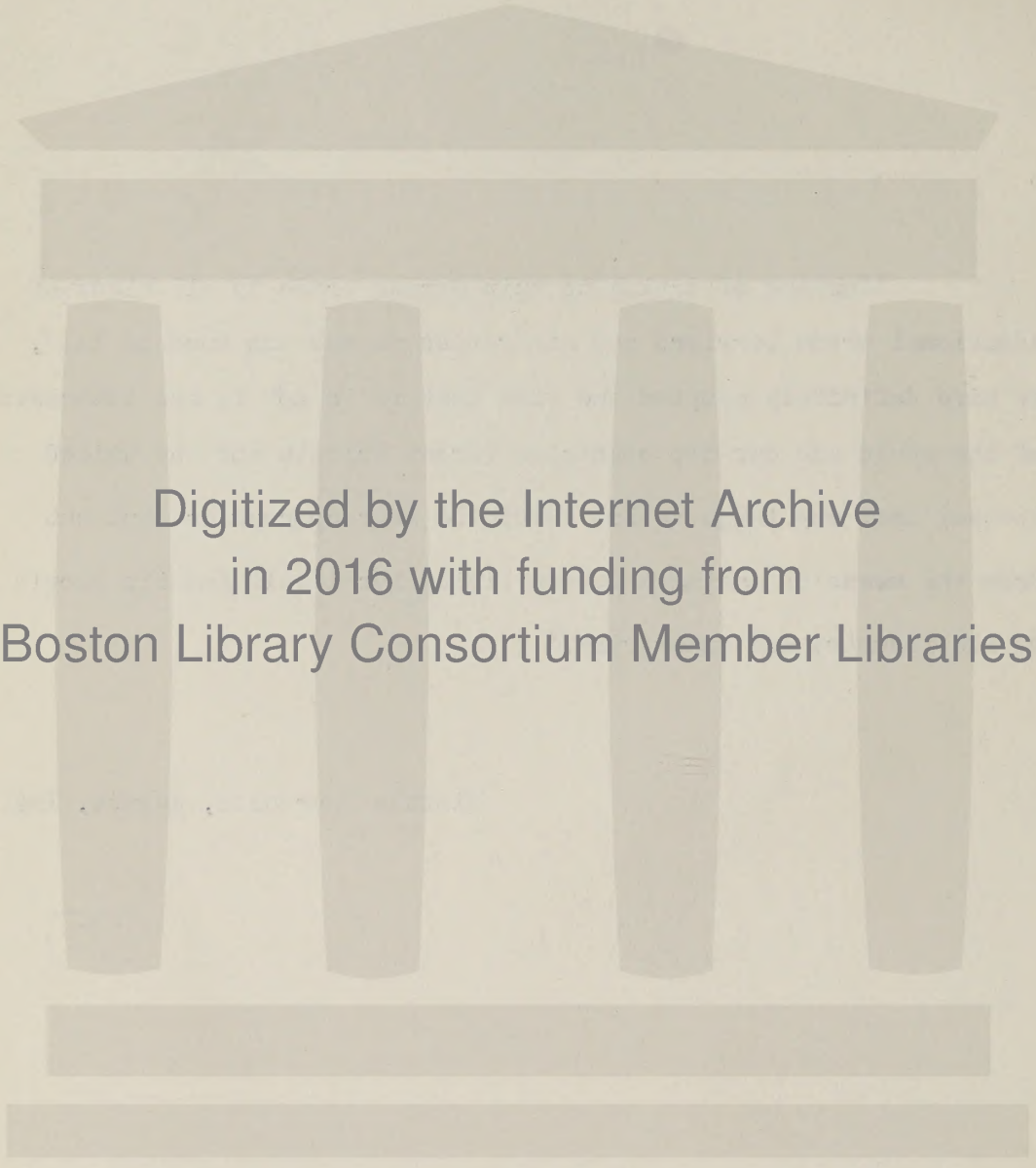
"Instead of trying to ruin German trade by all kinds of additional trade barriers and hindrances as was the mood of 1917, we have definitely adopted the view that it is not in the interests of the world and our two countries (Great Britain and the United States) that any large nation should be unprosperous or shut out from the means of making a decent living for itself and its people by its industry and enterprise."

Winston Churchill, August, 1941.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CHAPTER I

GERMANY'S ECONOMIC PROGRESS AND EXPANSION - 1848-1914

A. The German Peasantry.

The German peasant was typical of those residing in other countries during the period 1848-1870. He was a hard working, uneducated fellow who labored from dawn to dark for little renumeration. He raised a large family in order to help with the farm chores and his agricultural methods differed little from those of his predecessor a century before.

"A traveler moving into Germany up the Rhine from Holland would observe scattered homesteads, few compact villages and a slightly improved agriculture over that of other parts of Europe. Even during this period the German had an intensive desire for order and precision which was reflected by his neat little plot, well cultivated and rotated, with every available inch of ground utilized for some useful purpose." (1)

These simple folk lived in a feudal state under Hardenburg's Edict of 1816 which remained in force until 1850. The highest class of peasants, other than the aristocracy of freeholders which the Edict did not touch, were those whose lands were regarded as heritable, who in England would have been termed copyholders of inheritance. These were to become full proprietors on ceding to their lord a third of their land as compensation for what the lord sacrificed. Those whose property had not been hitherto heritable, and they were in a great majority, were to cede one half. If a man had so small a holding that he could not live on the remnant, he might keep all his land and pay rent.

Some relief was afforded by regulations adopted from time to time for the peasants whose lands were heritable. They bought off

(1) Clapham, J. H., "Economic Development of France and Germany", University Press, Cambridge, 1921, P. 30.

their old obligations by a sacrifice of land, or by an agreement to pay rent without sacrificing land, and there were no great delays in improving their status.

However, the tenants on non-heritable lands fared badly in the long run. They became involved in debt and in order to stay out of prison obligated themselves to the landlords, pledging their property for emergency financial assistance. The peasants falling into this category soon became aware of their serf-like status and observed that their land and themselves were their lords' property. Thus did the more energetic and aggressive quit the farms and swell the populations of the cities which increased the labor supply available for industrial growth and expansion.

1. German Peasants in Eastern Germany.

"The further a traveler went into eastern Germany the more clear it became that he was in a land conquered by Germans from Slavs." (1)

Within fifty miles of the Elbe he found islands of Slavonic speech. In Posen and West Prussia he crossed broad stretches of Polish territory recently taken over by Prussia, to pass into East Prussia, a country conquered centuries earlier, yet with a rural population, predominantly Slavonic in blood and largely Slavonic in speech. If the traveler turned south into eastern and southern Silesia he came into a land of Slavonic dialect. The above-description would seem to indicate that the residents of Eastern Germany at present have a strong strain of Slav despite the contentions of Adolph Hitler

(1) Clapham, J. H., "Economic Development of France and Germany", University Press, Cambridge, 1921, P. 30.

and the National Socialist doctrine.

2. German Peasants in Western Germany.

The West on the other hand was land of small productive farms and few towns of any size. The inhabitant of this part of Germany was a stolid, plodding fellow of strictly Teutonic background and ideologies. The division of his land and the methods used in cultivating it were truly representative of British and French influence. The Englishman would indeed feel at home in Western Germany as he observed the neat little farms surrounded by hedges. The Frenchman would likewise note the familiar site of small villages so closely resembling those of his own land.

"The British and French influence was indeed obvious in Western Germany although the residents were somewhat different in temperament and in many cases more skilled agriculturalists." (1)

3. Emancipation.

The most conspicious emancipation movement was that in Prussia, and as Prussia after 1815 was the sole state representative of almost all Germany, with lands stretching from the servile Slavonic east to the free Dutch west, the Prussian movement deserves mention here.

Most stories regarding Prussia begin with Frederick the Great and this will prove to be no exception. An owner of nearly one-third of his kingdom, Frederick had an ample field for his emancipation experiment. On his own manors he defined and lightened peasants

(1) Clapham, J. H., "Economic Development of France and Germany", University Press, Cambridge, 1921, P. 32.

services, secured for them the right of inheritance, and began an attack on the legal doctrine which placed some of them in a state of bodily servitude. He also attacked the technical side of Agrarian Reform by dividing up commons and rearranging fields, so as to allow for more individual agriculture. After Frederick's death, Prussia returned to its old ways for a black period of thirty years. However, at the expiration of this period teachings and practices of Frederick reinforced by the new doctrine of Anglo-French economic freedom became apparent, and the shackles and barriers which had hitherto sheltered the peasant were broken down. This led to a mass migration from the farms to the towns which soon became cities. In these newly created cities, infant industries were conceived which were later to create Germany of the future, the most highly industrialized nation on the Continent.

B. The Rise of the German Empire.

It is a common belief that Germany owed her rapid ascent to the position of number one industrial power in continental Europe to the founding of the Empire in 1871. On the whole this is true, but it would be a misconception to believe that before the Empire was founded, Germany had been a poor agricultural country far behind the countries of western Europe in industrial development. It is true that before 1870 the center of industrialization in Europe was west of the Rhine, and that only from there, primarily from England, did Germany derive the stimuli for her own industrialization. But when Bismarck forged the Reich with "blood and iron", "coal and iron" were already busy building up the economic foundations for this

new great power. (1)

The chief advantage in industrialization a big nation enjoys over a smaller one is that it has a larger area free of tariff barriers and other trade impediments. Until the founding of the Reich the Germany of today was politically divided into about thirty states, only loosely connected. Before 1866 it was not even clear whether the Austrian Monarchy, its whole territory-huge as compared with the various German states, would remain inside the German bund and subsequently became the nucleus for the recreation of a German Empire. But while politically this paramount guest was still to be decided by the sword, economically the decision had been made more than a generation earlier.

The "smaller Germany solution", this is, the founding of the German Empire under Prussian leadership, excluding Austria, was enforced by Prussia in the victories on the Bohemian (1866) and French (1870-1) battlefields, but it has been perfected in the economic sphere as early as 1833. In this year Prussia succeeded in uniting the most important of the future German Federal States in the framework of the German Zollverein. Other states joined rapidly, and after 1854 the Zollverein included all the territory that in 1871 was to be included in the German Reich except Mecklenburg, Hamburg, Bremen, and the territories annexed in the subsequent wars (Schleswig-Holstein and Alsace-Lorraine).

(1) Keynes, J. W., "Economic Consequences of the Peace", Harcourt, Brace, New York, 1920, P. 75.

"The German Zollverein represented a complete customs union and traffic among the member states and was not impeded by any kind of tariff barriers. The only customs frontiers were those between the member states and the world outside, to which, in this respect, Austria belonged. However, this was as far as German unification want at that time. There was neither a common currency, nor freedom of movement and settlement in the several States. In spite of this loosely knit plan of organization the Zollverein proved to be a potent stimulant for economic development. The chief reasons advanced for the economic flowering of Germany in the period before the founding of the Reich were: (a) Agrarian reforms of the Napoleonic Era. (b) Influences from the French domination over Western Germany. (c) Influx of British capital and British enterprise." (1)

The United States also enters the picture at this time in that the discovery of the California goldfields gave a most powerful stimulus to the German States. It was a period of rapid development in railroad construction, banking and advancement of heavy industries.

However, on the eve of the founding of the Empire, Germany was still what would appear to be an agricultural country. In 1871, of a population of 41,000,000, sixty-four percent lived in the country (communities with fewer than two thousand inhabitants). Measured by the standards of that time, however, German industry was not exactly standing still. Large amounts of coal and lignite were being mined and the production of iron ore and pig iron was approximately one-

(1) Clapham, J. H., "Economic Development of France and Germany", University Press, Cambridge, 1921, P. 30.

sixth of that produced by Great Britain. To what a high level Germany had advanced economically may be gauged from the fact that in 1870 the railroad system had a mileage of 18650 kilometers (11,501 miles). The United States had 52,922 miles. (1)

1. Actual Founding of the Empire.

When Austria and the German States allied with her were finally defeated in the short war of 1866, the North German States had been united by Prussia to form the North German Federation under Prussian leadership. Five years later, after another victorious campaign, the Reich was founded in the heart of a conquered enemy country, France. Thus the economic effects of unification and victory over a prosperous country coincided and enchanced one another.

Not until the Reich was founded could trade regulations for the whole territory be unified. Conditions for the exercise of all trades that had hitherto been restricted were now regulated in the spirit of liberalism, at that time predominant in Germany. Thus for the first time (1871) complete freedom of movement for individuals and merchandise inside the Reich's territory was secured.

2. The German War Machine.

Since the time of Napoleon I, the art and science of war has made enormous progress. A new era opened up with the advent of the king of military strategists and scientists, Count Helmuth Karl

(1) Stolper, Gustav, "German Economy", Reynal and Hitchcock, New York, 1940, P. 21.

Bernhard von Moltke. Frederick the Great and Napoleon I used to make elaborate preparations for war, but their work was clumsy and superficial in comparision to the minute studies and detailed preparations made by Moltke. (1) For example, Napoleon would concentrate the fire of hundreds of guns on that point of the enemy's position which to him appeared to be of the greatest importance and batter it in. Moltke, however, concentrated the best brains of his army on the one point which to him was the critical one. Moltke's chief aim was to surprise the enemy by unparalleled celerity of the mobilization of army, to fall upon him while he was still unprepared, and to smash him before the attack was expected. To this end he reorganized the Prussian General Staff, and made it the active brain of the Army.

Moltke's plan of organization was the beginning of skilled intelligence activity organized on a specialized plane. His theories of positive intelligence and technical intelligence are still considered to be the best ever developed. Odd as it may seem, Moltke was also an amateur economist and gave great consideration to the economic potentialities of the enemy and governed his activities accordingly. Certain attacks were made to knock out enemy territory containing iron and coal deposits, and much of Moltke's economic warfare, although crude, was the basis for strategy used in World War II.

The sole responsibility for the organization of the General Staff which survived until ingloriously defeated in World War II belongs

(1) Barker, J. E., "Modern Germany", E. P. Dutton and Company, New York, 1919, P. 65.

to the Prussian Military Caste to whom soldiering was a career and life's work. Badly defeated in 1806, they were reorganized by Moltke and functioned actively until 1919. Although not fighting on the Continent all during this time they participated as professional soldiers in about every conflict the world has experienced. Prussians always dominated this staff and composed the majority of its membership. The staff members, however, were not merely ornaments who because of Junker tradition and prestige graced the rolls of the army. They were rather brilliant soldiers of fortune whose whole life was engulfed by the army and whose sole objective was to install Germany as the number one world power. The surviving Prussian old guard still remain the uncompromising and cold military men portrayed by their forebearers.

Germany's victory over France was less due to superior strategy or to superior planning strangely enough, than to great superiority in methodical preparatory organization. For example, it took France three weeks to mobilize her army and only took the Germans eleven days. Consequently the brilliant invasion plan of Napoleon III miscarried for the well schooled and perfectly equipped German Army Corps fell into their places with incredible speed and rapidly crossed the frontier in overwhelming numbers long before the French were ready or expected them. The General Staff from this time onward created a school of independent military thinkers in Germany whose principles of minute comprehensive inquiry and careful foresight were also

applied to commerce and industry making Germany surprising successful in the more peaceful arts.

3. Economic Policy.

The close of the Napoleonic Wars left Germany devastated, impoverished, and exhausted with much of her industries and commerce destroyed. While the whole Continent had been ravished and ruined by incessant wars and hostile invasions, British industries had flourished and prospered in internal peace. During the slow progress of recuperation on the Continent, Great Britain conquered the commerce and industries of the world. Towards the end of the nineteenth century, Great Britain was the merchant, manufacturing carrier, banker and engineer of the world. She ruled supreme in the realm of business. Two-thirds of the world's shipping flew the British flag, two-thirds of the coal produced in the world was British, she had more miles of railway than the whole Continent and produced more cotton goods and more iron than all the countries of the world combined.

While Great Britain was the undisputed mistress of the world's trade, industry, finance and shipping, Germany was a relatively poor country in an international sense. She had been impoverished by her constant wars. She had neither colonies, good coal, shipping, or a rich soil and a climate favorable to agriculture. Communications were bad in the interior and her internal trade still remained somewhat obstructed and undeveloped. She possessed only one good harbor and was burdened with a costly militarism. According to the forecast

of British free traders, Germany was predestined to remain a poor agricultural country, exactly as Great Britain was predestined to remain a rich industrial nation.

About this time arose in Germany Friedrich List, a writer on political economy and a convinced believer in protection. He had travelled and seen the world, and had lived a long time in England and the United States. Consequently he spoke with greater practical knowledge on international affairs than the majority of political economists.

At the time Friedrich List wrote that Great Britain was wealthy and powerful, while Germany was poor and weak. List endeavored to show how Great Britain had become wealthy and how Germany also might acquire wealth, profiting from Great Britain's example. After investigating the economic history of England, he summed up the result of his inquiry as follows:

> "The English, by a system of restrictions, privileges and encouragements, have succeeded in transplanting on to their native soil the wealth, spirit and talents of foreign enterprise.
>
> "It is true that from the increase in her power and in her productive capacity England is indebted not solely to her commercial restrictions, to her protective laws, and to her commercial treaties, but in a large measure also to her conquest in science and in the arts.
>
> "How comes it that in these days one million of English operatives can perform the work of hundreds of millions? It comes from the great demand for manufactured goods which by her wise and energetic policy England has created in foreign lands, and especially

> in her colonies; from the wise and powerful protection extended to her home industries; from the greatest rewards which by means of her patent laws she has offered to every new discovery; and from the extraordinary facility for inland transport afforded by her public roads, canals and railways.
>
> "England has for a long time monopolized the inventive genius of every nation. It is no more than fair that England, now that she has attained the culminating point of her industrial growth and progress, should restore again to the nations of the continent a portion of those productive forces which she originally derived from them."

From these facts List drew the logical conclusion and applied it to Germany. He said:

> "Modern Germany, lacking a system of vigorous and united commercial policy, exposed her home markets to competition from foreign manufacturing powers in every way superior to herself. At the same time Germany was excluded from foreign markets by arbitrary and often capricious restrictions. It is therefore necessary that Germany secure their home markets for their own industries by the adoption of a united vigorous system of commercial policy.
>
> "We venture to assert that on the development of the German protective system depend the existence, the independence, and the future of the German nationality. Only in the soil of general prosperity does the national spirit strike its roots and produce fine blossoms and rich fruits. Only from the unity of material interests does unity of purpose arise, and from both of these national power." (1)

Germany's progress under a system of protective tariffs was steady, continuous and rapid. Between 1850 and 1900 Germany's production of iron, her consumption of cotton, and her savings bank deposits grew gigantically. In 1914 her population had about four times the

(1) Barker, J. E., "Modern Germany", E. P. Dutton and Company, New York, 1919, P. 172.

amount of savings in the savings banks which was to be found in the British Savings Banks. Sixty years prior to 1900, according to List, the average wages of British workmen were four times as much as those of the average German workman. Before World War I German wages and British wages were equally high in many instances. Hence, German wages under protective tariffs had risen four fold in many trades. From a poor debtor nation, Germany became a rich creditor country. Formerly she had to borrow money in foreign countries and on onerous terms. In 1914, German capital invested abroad amounted probably to about eight billion dollars. (1)

A considerable proportion of the responsibility for Germany's sensational advance must also be borne by those who advocated German unity at home and achieved their goal. The customs union had prepared the way and the German nation derived immense additional economic advantages from its newly gained unity. Not until the Reich was founded could trade regulation for the whole country be unified. Complete freedom of movement for individuals and merchandise inside the Reich's territory was achieved. Measures and weights, until then varying widely in the different states were made uniform on the basis of the metric system. However, like the United States, the German Reich began as a federation of soverign states, and retained that status until the revolution of 1918. But while, as far as domestic and foreign politics were concerned, Germany became a unified state, the financial and administrative power remained chiefly with the

(1) Barker, J. E., "Modern Germany", E. P. Dutton and Company, New York, 1919, P. 174.

individual states up to the time of the Weimar Constitution.

At the time of the founding of the Reich, Germany was still divided into seven separate currency areas. Furthermore, there were thirty-three banks of issue entirely unconnected with one another and carrying on their issuing activities under completely different rules and laws.

With such a chaotic currency system, any monetary policy in an industrialized country would have been impossible. The one feature common to all these currencies was that silver was the legal tender except in Bremen where gold was used.

The unified currency of the new Reich, however, was based on the gold standard. The adoption of the gold standard was of extraordinary significance at a time when no great country besides Great Britian had yet introduced it. But when Germany reached this momentous decision, the great crisis of silver was already in the offing, and it was to be expected that France and the United States would also soon conform to the gold standard. By taking the lead the young German Reich rendered a great service to world economy. It cleared a path to an international currency unification on the gold basis, which for the whole period up to the World War proved of the greatest importance for the rapid expansion of world trade. (1)

4. Industrial Growth.

Despite the intensification of agriculture, the rural sector participated to only a negligible degree in the growth of the

(1) Stolper, Gustav, "German Economy", Reynal and Hitchcock, New York, 1940, P. 32.

population. As in other industrial countries, rural life lost its attractions. A flight from the land began, with the result that the natural increase in population was absorbed by the cities. This shift in population enabled agriculture and industry to exchange their relative importance in Germany's economic life.

The broad foundation for Germany's industrial expansion was created by the development of her heavy industries. In coal mining Germany never caught up with her rival, Great Britain but even so, German coal mining expanded at a rate with which only that of the United States is comparable. Hard coal production rose from an annual average of 34,500,000 tons in the period 1871-5 to 191,500,000 in 1913. The rich bituminous mines were increasingly developed, and the production of bituminous coal increased from 9,700,000 tons to 87,500,000 tons in the same period. (1)

The German iron industry owed its expansion as much to its coal basis as to the ore mines of Lorraine. German iron-ore production increased from an annual average of 5,300,000 tons in the period 1871-5 to 28,700,000 tons in 1913. This provided the foundation for the growth of the iron industry. In 1871, German pig iron production was 1,564,000 tons, in 1910 14,794,000 tons. As late as 1900, British pig iron production (9,103,000 tons) exceeded German production (8,521,000 tons) but in steel Germany (7,372,000 tons) already beat her British rival (5,981,000 tons). In 1910, German iron production was far ahead of all other European countries; Great Britain with 10,172,000 tons of pig iron and 7,613,000 tons of crude steel had been

(1) Stolper, Gustave, "German Economy", Reynal and Hitchcock, New York, 1940, P. 41.

left far behind. (1)

Germany made use of her heavy industries (a) to build up her railroad system (her railroad mileage increased from 18,560 kilometers in 1870 to 60,521 kilometers in 1912); (b) to create one of the mightiest merchant fleets in the world (her mercantile steamer fleet increased from 147 ships with 81,994 gross register tons in 1871 to 2,098 ships with 4,380,348 gross register tons in 1913); (c) to expand her machine industry at a gigantic pace into one of the largest sources of exports (51,000 were employed in 1861, 356,000 in 1882, and 1,120,000 in 1907). Finally, the position taken by the armament industries should not be overlooked, in 1912 the firm of Krupp of Essen employed 68,300 workers.

Most economists prior to World War I did not believe it was possible for a European state to possess flourishing manufacturing, and prosperous rural industries at the same time. Yet Germany possessed both highly developed manufacturing industries and an exceedingly flourishing agriculture. (2)

Germany with poor soil, unfavorable climate, bad geographical conditions and a somewhat intractable peasantry possessed a prosperous and vigorously expanding agriculture. The answer to this appears to be attributed to the methodical and economical traits of the German people. If before World War I a man took a railroad trip through the British Isles he noticed chiefly grass fields, which covered sixty percent of the United Kingdom, but he rarely saw cereals growing. If he took a railway journey through Germany, he would have

(1) Stolper, Gustave, "German Economy", Reynal and Hitchcock, New York, 1940, P. 42.

(2) Ibid, P. 43.

seen chiefly cereals, which, in that country took up more than sixty percent of the agricultural lands. Every available plot of ground was utilized for growing crops in the agricultural areas and liberal subsidies were provided by the government to encourage crop rotation and the use of fertilizers and other products which would increase and prolong productivity of the land.

The German State railways, beginning their rise in 1879, largely contributed to the phenominal advance of the German industries to the position they occupied immediately prior to the outbreak of World War I. Suffering from exploitation and financial maneuverings similar to those in the United States in their infancy, the German railways were taken over by the State at the behest of Prince Bismarck in 1879. From that point onward a truly national railway policy was pursued. Railroads were built where they were wanted by the population or by the State. The State at the same time did not discourage competition and encouraged the construction of waterways and electrical trams. The freight tariff was greatly simplified and changes were as uniform and as easy to compile as postal charges. There were only a few classes of goods and a small simplified rate book was furnished to the customers who could almost instantly arrive at the cost of transportation of goods between any two points. (1)

State railwayswere a great success in Germany prior to World War I, but whether they could survive in a democracy without meddling and inefficiency is an excellent topic for debate.

(1) Clapham, J. H., "Economic Development of France and Germany", University Press, Cambridge, 1921, P. 155.

Recognizing the importance of cheap transport and of an alternative transport system Germany steadily extended, enlarged and improved her natural and artificial waterways and kept on expanding and improving them. Natural earthbanks of rivers were replaced by solid masonry walls. The river beds were narrowed and deepened, the rocks which were a danger to navigation blasted away, and provisions were made to prevent ice forming during seven winters thus closing rivers and canals. Numerous well equipped harbors and quays were built by all towns within reach of inland navigation, and gradually all the more important waterways were perfected and improved.

If it were not for the existence of the German waterways it is questionable whether the industrial rise of Germany would have been so marked. The iron industry was completely dependent upon waterways for the important iron ore, which had to be carried over huge distances to the Ruhr coal district to be smelted. Certain valuable products and by-products of the German mines and iron works, and the more bulky chemical products could be sold abroad and in Germany solely because of the cheapness of water transportation. In many cases the profit was cut so fine that an increase of the freight charges by about one-fiftieth of a penny a ton per mile would have killed important industries. Germany's industrial success was no doubt due to a large extent to the immense assistance she received from her waterways. (1)

No account of German industrialization from 1870 to 1914

(1) Barker, J. E., "Modern Germany", E. P. Dutton and Company, New York, 1919, P. 243.

would be complete without giving consideration to the leading part played by the German banks. The dynamics of the German economy can only be understood if we realize that one of the most powerful stimuli to industrialization came from the peculiar banking system of Germany. The great difference between the German and Anglo-American banking systems becomes apparent in the difference in meaning of "bank" in Germany and in England and the United States. The German bank was a combination of commercial bank, investment bank and investment trust, which required backing by a central bank.

From the very moment of their inception the German banks were planned mainly as instruments for the financing of industries, not as credit banks after the English or American pattern. As a result industry and banking advanced together in Germany, and it is interesting to note that all the great banks originated in periods of industrial expansion.

5. Shipping and Commerce.

During the middle of the last century German shipbuilding was rather flourishing. Numerous shipyards on the Elbe, the Weser, and along the North Sea Coast were building wooden sailing ships for which the raw material was cheap and near at hand. However, when iron steamships began to displace wooden sailing ships, the German shipyards declined and Great Britain, who was then practically the only industrial country in the world, easily obtained monopoly in iron shipbuilding. In 1885 German shipbuilding was practically non-existent,

but in 1906 Germany was building a greater tonnage than all the continental countries put together. By wise, far-seeing, determined state action were the German shipbuilding and shipping industries artificially established, fostered and developed. The astonishing success of the German shipbuilding industry was due partly to its excellent management and organization, partly to the application of science and experience to industry, and partly to the harmonious co-ordination and cooperation of the various economic factors which in more individualistic countries were not co-ordinated.

Shipbuilding of necessity brought about an economic expansion of Germany outside of her own frontiers. It should be noted that the expansion of her industries had raised Germany to the rank of England. The two were the most important industrial exporters in the world. In 1880 German foreign trade ranked fourth among the exporting nations, that is, after Great Britain, France and the United States. Soon Germany gained second place (after the United States), a position which she maintained up to World War I. (1)

The growth of German foreign trade from the foundation of the Reich to World War I was a good index of the head long expansion of the German economy in the last two decades of this era. Germany's rapid industrialization was also reflected in the composition of her foreign trade. The ratio of industrial finished products to total exports rose from thirty eight percent in 1873 to sixty three percent in 1913. But the industrial affluence and the exporting capacity of the country were

(1) Bruck, W. F., "Social and Economic History of Germany", Harper Brothers, New York, 1937, P. 248.

entirely dependent upon the importation of raw materials and food stuffs, which by far exceeded the exports of finished goods.

6. Desire for a Colonial Empire.

Bismarck's Prussia was a military and not a naval state. Hamburg and Bremen, Germany's two outlets to the world at large, were not Prussian and did not even belong to the German Zollverein. Prussia's aspirations were centered on Continental Europe exclusively and Bismarck himself was originally a declared enemy of the colonial policy. But when the turn in foreign trade policy occurred, Germany modified her attitude towards colonial problems and the "colonial empire" made its entry.

The slender value of the German colonies for her economic life may be learned from the following facts: On the eve of World War I, German capital working in the colonies was a little over five hundred million marks or two percent of the total German capital invested abroad. German capital was primarily employed in the colonies in building up railroad systems, port facilities, plantations and mines. Exports including diamonds, rubber, and vegetable oil products did not exceed eighty three million marks in 1912. The colonies were, therefore, of no value for supplying German industry with raw materials nor could they furnish a sizable market for German industries. In 1913 less than one half of one percent of total German exports went to her own colonies. It is, therefore, doubtful if had not German colonial power been broken up by World War I she would have become a rival of Great

Britain as a colonial empire. (1)

7. Labor.

As had been the case in England, the German workers were long prohibited by anti-union legislation from organizing into trade unions. Only after the liberal era of the 1860's was well under way were most of these restrictions allowed to lapse. First among the federal states to repeat the anti organization laws was Saxony to be later followed by the Trades Code adopted by the Reich in 1871. This agreement guaranteed freedom of organization to the workers and soon afterward the first trade unions were formed.

In marked contrast to unions in the Anglo-Saxon countries, the German unions were built up by central organizations that were decidedly political in character. Thus from the beginning to its end in 1933, the German trade unions movement was politically oriented and closely aligned with the major political parties in Germany.

This unionization was paralleled by similar activities among the employees, who also formed centralized associations. In the entire history of the unions the relations between employers and employees remained an exclusive affair of these two groups. The State kept out completely, except of course for the protection that civil law accorded industrial agreements as well as other types of contracts. The industrial courts formed in 1891, however, were the first step in the direction of state regulation of employer-employee relations. But beyond that, relations between employers or their associations and trade unions were not much regulated before World War I. The whole technique of

(1) Barker, J. H., "Modern Germany", E. P. Dutton and Company, New York, 1919, P. 103.

collective bargaining developed very slowly, and the number of such agreements remained small. The rapid upsurge of German industry and the relative mildness of the business cycles of that period on both the up and down swings helped to keep labor troubles within moderate limits as to the number and intensity of strikes. (1)

8. Cooperatives.

Together with labor unions the cooperatives also built up their own organizations. Following the example of Britain, consumers cooperatives were formed, which, in both membership and activities were second only to the British organizations of the same kind. Small tradesmen and farmers found much economic support in cooperative organizations, primarily in credit associations for traders and farmers respectively. Buying and selling cooperatives were also formed but were chiefly limited to the Agrarian groups.

9. Social Legislation.

The idea of social reform originated in countries with older industrial traditions, primarily in England, not in Germany. Social reform was meant to break the forces of capitalism wherever their full sway could breed or had bred obvious social defects. But in no other country had the idea of social reform impressed the minds of the people so deeply as in Germany, or been carried so fully to the point of a whole social philosophy.

In 1883 the first social insurance law came into being. Based on previous voluntary arrangements, it provided for a compulsory health insurance for workers. Accident insurance for workers was

(1) Clapham, J. H., "Economic Development of France and Germany, University Press, Cambridge, 1921, P. 329.

organized the next year, followed in 1889 by old age and sickness insurance.

Thus, among the workers of all countries the Germans were the first to be protected against the worst social dangers to which they were exposed, with the exception of unemployment, which as yet had not existed in sufficient numbers to be termed a social evil. If a worker or his wife fell ill, the health insurance fund provided adequate medical and financial aid, placed them in hospitals and sanitoriums and provided for their medicine. Whenever a worker had an accident, the compensation fund took over all medical costs. Whenever he became partly or totally disabled, or reached age sixty-five he received a pension providing an adequate living. If he died before reaching sixty-five years of age the widow and orphans were entitled to an annuity.

The cost of accident insurance was borne by the employer alone, those of health insurance were shared by employer and employee, in the old age and sickness insurance the Reich was from the beginning the third participant. According to their contributions, employers and employees had a share in the management of the social insurance organizations.

Other protective legislation enacted included a law passed in 1891 which provided for a maximum working day of eleven hours for women and ten hours for children. Night work for women and children was prohibited as was the employment of children under fourteen in industry and trade. Free Sundays and various hygenic rules and working conditions requirements were also set before the turn of the nineteenth century. (1)

(1) Stolper, Gustave, "German Economy", Reynal and Hitchcock, New York, 1940, P. 77.

CHAPTER II

WORLD WAR I

A. Underlying Causes.

Germany's phenominal rise to an industrial world power, well balanced both within herself and as a member of the world economy, was destroyed by a sudden catastrophe. This catastrophe known to us as World War I broke out July 28, 1914, eventually involved twenty-nine nations and concluded with the Armistice which took place November 11, 1918.

1. Background.

The underlying causes go far back into the complexities of European diplomatic and economic history. These include racial conflicts, lust for conquest and trade, and hostile division of major Europan powers into the triple alliance and triple entente respectively. This smoldering fire of international rivalry and intrigue blazed into violence with the assassination of Archduke Francis Ferdinand, heir apparent to the Austria-Hungary throne on June 28, 1914, at Sarajevo Bosnia. Assured of German support, Austria-Hungary sent a severe forty-eight hour ultimatum to Serbia, accusing that country of plotting to undermine and destroy the Hapsburg Empire. Austria-Hungary declared war on July 28, 1914, despite pleas for arbitration from other nations, and a Serbian reply which could be interrupted as a partial compliance to Austria-Hungary's demands. Russia seeing that its interests were menaced in southeastern Europe ordered mobilization of its armies which was construed by Germany as a threat to its ally Austria-Hungary.

Germany subsequently declared war against Russia on August 1, 1914, and against France mobilized as Russia's ally, August 3, 1914. German troops proceeded to violate the neutrality of Belgium which brought on a declaration of war from Great Britain, August 4, 1914.

2. German Finances.

Germany and German industry had the tremendous task of providing alone, without economic and financial help from abroad for all four years of the war. Germany's fate economically was sealed by the blockade which forced her into an involuntary autarchy although up to the time of the war Germany had participated in world trade more than any other nation except England.

When World War I broke out on August 4, 1914, Germany was economically completely unprepared for a war that was to expose her for several years to the immense endurance test of an economic and financial isolation. German statesmen obviously were considering a lightning campaign and were not prepared for a struggle of many years with an adversary of equal strength. The First Battle of the Marne which ended the German military dream was also the Battle of the Marne for the German war economy. (1)

In one economic sphere alone did Germany have something like a plan according to which, in case of war, she could begin to act on the very first day. This was the sphere of money and credit and state finance. The German Government had not troubled their heads how, if the war came, they would procure bread for the people and raw materials for the army. But they had taken to heart the old adage that three

(1) Material secured from author's study of Germany's World War I economy while associated with a federal intelligence agency in World War II.

things are indispensable to wage modern war; namely, money, money, and more money. It soon became apparent, however, that the money they could provide was not of much use in a modern war.

A series of inflationary acts followed in rapid succession initiated by the discontinuance of redeeming bank notes in gold brought about by the hoarding of gold by a war scared public. The most important step towards unrestrained inflation was the establishment of Loan Banks who had the power to make loans on securities disqualified as collateral by the Reich Bank. Besides these Loan Banks extended credits to the Federal States and municipalities as well as to war corporations and it was their designated task to make advances for subscriptions to the war loans. It is interesting to note that the funds of the Loan Banks were procured very simply by means of the printing press. Loan Bank notes, as they were called, were issued to the full amount of the outstanding credits of the banks as legal tender and were partly taken up by the Reich Bank and partly placed in immediate circulation.

The financial war plan of the Government was clear as it was simple and premeditated. The printing press had been chosen to fulfill the war needs of the Reich and the increased credit requirements of private business. It was planned, in due time, to refund by a war loan the credits for which the Reich had drawn upon the Reich's bank. But it was never contemplated to cover the war expenditures by means of taxation. (1)

(1) See footnote preceding page.

3. Inflation.

Since most of the war loans had the appearance of being compulsory loans, it would have been very tempting to save the interest payments by replacing the loans with taxes. Equally important psychological considerations would have prompted a drastic increase in taxation in order to pacify the feelings of the public against "war profiteers", the industrialists and tradesmen, who enjoyed good business in the war boom period. Nevertheless tax increases were resorted to only as a last resort and as late as 1915 it was reiterated in the Reichtag that the government's intention was to finance the war exclusively by means of credit.

Only very slowly, under the combined pressure from public opinion and the political parties, did the methods of financing change somewhat. War taxes were imposed on war profits, turnover of goods from producer to consumer, and other, chiefly indirect, taxes were added, of which the most important were coal and transportation taxes.

During the entire war the German stock exchanges were closed, and quotations of foreign currencies were not published. Therefore, the consequences of inflation on the quotation of securities and foreign exchanges remained unknown to the public. The mark was, however, being quoted on the exchanges of the neutral countries, and there the effects of the German inflation could be gauged by the continually sinking value of the mark. At the end of the war the mark on the neutral exchanges had fallen to about one half the gold parity. (1)

(1) Material secured from author's study of Germany's World War economy while associated with a federal intelligence agency in World War II.

B. Militarized Economy.

At the outbreak of the war, Germany was the greatest military land power in the world. But in one very crucial respect, to become decisive after four years of struggle, she was at a disadvantage compared with the Allies in that she was not master of the seas.

Germany was forced to enter into a small limited economic sphere with her own allies. Inside this sphere close market relations were formed and the German industries exchanged their products for the very limited surpluses of raw materials and foodstuffs of her allies. These surpluses were increased somewhat by conquest in southern and eastern Europe, but throughout the war the supplies were critical. Some trade was kept up with the neutrals connected with Germany by a continental frontier, however, these nations had little to spare as the British blockade effected them almost as badly as it did Germany. The blockade had qualitative and quantitative effects that were to prove fatal in the long run. The qualitative effect was that Germany had no access to certain raw materials she herself possessed either not at all or in insufficient quantities. These materials, notably metals, rubber and oil were indispensable as implements of war. The quantitative effect of the blockade was that Germany was confined strictly to her own economic resources, from which she had to bolster up the even weaker resources of her allies by various economic and financial expedients. The Allies, however, could not only dispose of their own production, but in addition had free access to the production of the whole world including that of the United States. (1)

(1) See footnote preceding page.

By cutting Germany off from all foreign resources, the blockade inevitably led to her downfall. For at the time of entering the war her economic life was intrinsically free although much more interspersed with governmental regulations than in the western countries. When the war ended, she had a thoroughly militarized economy. The shape of this economic organization was determined by dire necessity, not by a plan well thought out in advance. Thus business was not militarized with one stroke according to plan, but, as the war dragged on, militarization gradually developed as scarcity appeared in one field after another.

C. Food.

A highly industrialized country with a densely concentrated urban population like Germany is normally dependent upon an exchange of domestic manufactured goods with the agricultural products of other countries. Before World War I Germany produced about two-thirds of her food and fodder requirements, importing the other third. Germany, cut off from her normal exports by the effectiveness of the British blockade, offered all sorts of inducements to agriculture to increase production. This program enjoyed limited success only because the men who tilled the soil were called to the colors and chemical plants who in peace time produced fertilizer were busily engaged manufacturing gunpowder. (1)

The German War Food Administration endeavored to use all the instruments available to an administration organized along military lines. It cut down consumption with ever increasing ruthlessness,

(1) Material secured from author's study of Germany's World War economy while associated with a federal intelligence agency in World War II.

and made new regulations for distribution, using new technical methods. Food consumption was regulated in states and the net drawn closer around the hapless consumer. Apart from lifting agricultural tariffs and clamping down embargoes on foodstuffs only a general law had been passed at the beginning of the war that empowered authorities of individual states to fix price limits on foodstuffs. It was not contemplated at that time, however, to abolish the free food markets, but only to prevent any runs or panics.

A maximum price system for foodstuffs without simultaneous regulation of consumption is like a "pistol without barrel or shells". At the time of a panic it may prove efficient, but as a permanent system of distribution it must necessarily fail because it does not guarantee equal distribution of food over a period of time.

Finally after the previously related system proved inadequate the rationing system was introduced which was very similar to the rationing systems utilized in World War II. All essential foodstuffs were included and the individual rations were based upon the results of harvests and foreign resources. However, this flexible portion of the system only worked to the detriment of the consumer since only revision downward took place. Extra rations were issued to expectant mothers and children, laborers and persons engaged in activities requiring physical exertion. The army, of course, was exempted from the entire card system and the farmers were allowed larger rations than the rest of the population. (1)

Agricultural production was also subjected to a system of compulsory regulations, which remained ineffective insofar as they were supposed to compel farmers' to increase their production. Frantically the system of compulsory regulation was extended further and further.

(1) See footnote on preceding page.

but none of these measures could stop the decay of agriculture that resulted from the deficiency in farm labor, fertilizer and implements. At the end of the war, not only had the livestock, on German farms run down to an alarming low, but grain production had decreased to less than half of the yields of prewar years. Together with the rest of Germany, agriculture in 1918 had reached the end of its tether.

D. Industrial Regulation.

To a large extent modern war has become a matter of industrial capacity. Under normal conditions the food needs of an army at war are not a great deal in excess of what the standing army and reservists called to service required before mobilization. With the food shortages evidenced in World War II the above statement may appear ridiculous, however, it must be understood that we fed most of the world in addition to ourselves this time. But what is measurably increased from the very outset of a war is the demand for special industrial products.

Walter Rathenaw, later a prominent foreign minister in the Weimar Republic, presented to his government in 1914 a plan for the management of the country's raw material supplies. As chief of the War Material Office, he laid the foundation for the War Industry Administration.

The so-called war companies, founded by Rathenaw, had a certain relationship with the mixed-ownership companies developed prior to the war. In the war companies elements of private and public ownership formed a peculiar mixture, in respect to both their legal setup and the powers in control. Usually private stock or limited liability companies

were organized, but differed from genuine private companies in that they acted as trustees for the government and administered the processing of government controlled materials. In fact the companies were controlled jointly by the Government and the original owners, and asfar as remaining under private control they were regarded as autonomous organs of industry under government control and for public purposes.

Necessarily these war companies degenerated rapidly. On the other hand, they were blamed for allegedly permitting excessive war profits to the industries connected with them, and it is true that they could not prevent profits from being made, although it was one of their tasks to keep profits of their member companies within bounds. On the other hand, the basic principle of self-government was certain to be more and more curtailed with the growing scarcity of raw materials, and the war companies were transformed into purely bureaucratic agencies.

In the first war years the Government confined its measures to the industrial sphere: a. Demanding that producers sell scarce and critical materials to war companies. b. Fixing maximum prices. c. Reselling the raw materials to the processor for limited uses. Distribution to manufacturers was according to the "urgency" of their production which pretty well corresponded with the priority system of the United States in World War II. (1)

The Hindenburg program was adopted during the latter part of 1916 because the Germans were determined to muster all economic forces and break through the strategy of exhaustion applied by her enemies. This

(1) Stolpher, Gustave, "German Economy", Reynal and Hitchcock New York, 1940, P. 117.

program was supposed to complete the militarization of the nation's economic life. The law provided that every male German citizen from seventeen to sixty years of age not in active military service was to be regarded as a member of the Auxiliary Service. Actually the law was made applicable principally to workers in the plants directly or indirectly employed in war industry or on farms, who subsequently were deprived of their freedom of movement. They could not change their employment without the approval of the employer or a committee. If war plants experienced difficulty in procuring necessary workers by voluntary methods they could be conscripted into the plant.

The compulsory service of the war plants themselves consisted of the drafting of their production for munition supplies. Plants not adapted to this type of operation were deprived of their workers and thus forced to shut down or amalgamate with other companies. State control over private industrial companies went so far that unused machinery could be drafted and allocated to other plants.

E. Labor Unions.

The labor unions prior to 1914 had achieved a great deal of power in Germany and were closely interwoven into the texture of German economic life. Officially, however, the unions lacked a clear legal status in that they theoretically were still considered as revolutionary and therefore illegitimate, although after the repeal of the Anti-Socialist Laws no longer as illegal associations.

The Social-Democratic party with which the unions were connected

dropped the pretense of being a revolutionary opposition party at the beginning of the war and officially became a loyal opposition party. The change in the party's status had its influence upon the labor unions whose power was increased almost automatically. Although the unions gained an additional advantage by the rise in industrial war requirements, they did not press this advantage openly when negotiating with employers. Also German unions and employers agreed to suspend all labor strife for the duration of the war.

A natural consequence of the war inspired shortage of labor was that recently acquired real power of the unions was not hampered in any way by the official renounciation of the strike weapon.

Despite maximum price legislation and compulsory management of material resources, the war years were a period of rising prices. Wages, however, tended to lag behind prices. In an endeavor to stop this source of social unrest, authorities began to take some interest in employer-employee relations. They initiated negotiations between unions and employers, set minimum wages as a condition for the award of government orders, and instituted conciliation committees on which employers and employees were equally represented.

Workers' committees were set up as a result of demand by the Social-Democratic Party who refused to consent to the militarization of war workers unless the workers' interests could be safeguarded by workers' committees. In every plant with fifty or more workers, these committees were formed by secret ballot among the employees on the basis of proportional representation. These workers' committees were

the immediate predecessors of the shop-council system inaugurated by the Weimer Constitution, which was destined to become an important part of the German labor system. (1)

F. The Defeat.

The military history of World War I leaves no doubt as to which side commanded the superior forces in the last phase of the war. Slowly but surely the ultimate limits in the exploitation of all German resources came into sight. In technical equipment the German Army was surpassed more and more by Allied Armies who were finally strengthened by the accession of the new American ally, the greatest industrial power in the world.

There is, however, no doubt that a number of subtle moral factors contributed to the defeat among which the morale of the army and civilians was paramount. The German nation from which for four years the maximum of life, limb and wealth had been exacted was at last forced to realize that it was doomed to starvation, its submarine warfare had failed and it had a new enemy; namely, the most powerful nation in the Western World. The breakdown of morale in the economic sphere was evidenced by black market activities and a wave of strikes which were almost exclusively called in protest of the distressing food shortages.

Although the German military blamed the defeat on a "stab in the back" administered by the homefront, it would appear that the almost superhuman sacrifices imposed on the people by the war government slowly undermined the power of resistance and the final collapse was caused by military, economic and physiological processes, not by political factors.

(1) Stolper, Gustave, "German Economy", Reynal and Hitchcock, New York, 1940, P. 124.

CHAPTER III

GERMANY UP TO THE THIRD REICH

A. Weimar Republic.

The revolution that followed the military collapse brought a fundamental change in Germany's political structure. The economic changes were much less revolutionary once several timid attempts at nationalization of the key industries had failed.

It is true that the economic structure of the Germany of 1932 was very different from that of 1914. In itself this economic structure would have been ripe for a Socialist regime. The tendency to allow economic relations to be controlled by the state had originated long before the war and became dominant because of the war.

The German Republic had a brief but adventurous life. From both a political and economic point of view we may distinguish three well-defined periods in the comparitively short span of fourteen years.

The first lasted five years, from November, 1918, to November, 1923. Politically it was the period of the worst disorder and of dangerous attempts on the life of the young Republic, while economically it was dominated by the inflation. The era of political unrest, of Putsches, and of political murders came to an end on the very same day of the inflation. On November 9, 1923, the musical-comedy team of Hitler and Ludendorff failed in their Munich Putsch and on November 15, 1923, the currency was stabilized.

The second period lasted until the end of 1929. It was terminated by the death of Gustav Stresemann, the last Foreign Minister of the Republic to enjoy both national and international confidence and

authority. Stresemann died in October 1929, about the time of the collapse of the great American boom. Politically and economically, this was the time of the flowering of Weimar Republic. German democracy had apparently been consolidated, and this political stabilization was accompanied by an economic boom on a truly American scale.

The third phase, which lasted until the end of 1932, was the industrial, agricultural and banking crisis. Like the boom period, it can be only measured by American standards. There was only one difference between the United States and Germany, but it was very fundamental. America's democracy was established beyond any doubt and an economic crisis could do nothing worse than bring about a change in administration. The young German republic, on the contrary, was not yet consolidated enought to survive the shock of the crisis.

1. The Versailles Treaty.

On entering the Weimar period of inflation and then of reconstruction, Germany as a territorial unit was very different from the powerful nation of pre-war years. Not only had she lost all her colonies, whose value was doubtful, but also the Reich proper had lost 13.1 percent of its pre-war territory and 10 percent of its population of 1910. The territories lost permanently or until 1935 as a result of the Versailles Treaty and the partition of Upper Silesia in 1921 were particularly rich in agricultural and mineral resources. They comprised 14.6 percent of the arable area of Germany, 74.5 percent of German iron ore, 68.1 percent of her zinc ore, and

26 percent of her coal production. Add to this the disruption of the German potash monopoly and the transformation of the Alsatian textile industries from one of the most powerful factors of the prosperous German textile industries into their most dangerous competitors. Finally, it should not be overlooked that the loss of Alsace-Lorraine, and even more the partition of Upper Silesia, destroyed some of the most important interconnections of the industrial and transportation systems. (1)

In other words, the loss of territory made Germany considerably poorer than she had been. And this loss was immensely increased by the deliveries in kind imposed on Germany by the Armistice and the peace treaty. In addition to the armament material, including the entire navy, Germany had to deliver:

All merchant ships exceeding 1,600 gross tons.

Half of the merchant ships between 1,000 and 1,600 gross tons.

One quarter of the fishing fleet.

One fifth of the lake and river fleet.

Five thousand locomotives, 150,000 railway cars, 5,000 motor trucks.

The entire Alsace-Lorraine railway system, with all rolling stock.

All material relinquished in the war zone.

All public property in the ceded territories and in the colonies. (2)

Furthermore, the allies reserved the right to confiscate all German private property in their own countries and in the ceded territories. (The German citizens were to be compensated by the Reich Government). This threat was subsequently made good, except in ceded

(1) Stolper, Gustave, "German Economy", Reynal and Hitchcock, New York, 1940, P. 135.

(2) Ibid, Page 136.

territories. The United States alone set a notable exception by later returning the private property to its owners.

The crediting of all these deliveries to the reparation account - at wholly arbitrary valuations - was purely fictitious. In view of the huge size of reparation totals, this crediting was like pouring water into a bottomless glass.

These deliveries and losses of territory resulted in a tragic deterioration of German balance of payments. Larger food imports became necessary; minerals until then mined in Germany had to be bought abroad and the exports of others reduced. The loss of a merchant fleet deprived Germany of income from transportation paid by foreign countries. The loss of her capital investments abroad meant the loss of profits and interest previously received from other nations. Even without reparation payments, it would therefore have been very hard for Germany to regain a balance in her foreign exchanges unless she were accorded some help from other countries.

2. Reparations.

The reparations invoked rendered the German situation definitely hopeless for the next few years. When on October 3, 1918, Prince Von Baden's government accepted Wilson's Fourteen Points, it thereby accepted also the obligation to repair the devastated war zones. The note sent by Secretary of State Lansing to the German Government on November 5, 1918, defined this reparation obligation more precisely. Germany was to undertake to repair the damages to private property, except that of Russia. (1) Had the computation of these damages been

(1) Literally: "Compensation will be made by Germany for all damages done to the civilian population of the Allies and to their property by the agression of Germany by land, sea, and air."

accurate, the obligations would probably have been balanced to a large extent by the deliveries already enumerated. But the reparations as ultimately defined had lost their relation to the original American definition.

The Versailles Treaty first obligated Germany to pay all cost of Allied occupation troops on German territory, this being a superimposed obligation not credited to the reparations account. Second, it extended the reparations to include all (capitalized) pensions for Allied combatants, swelling the reparation figures enormously. A total sum for the reparation obligations was however not set by the peace treaty, which provided only that the German Government was to issue and deliver at once bonds to the amount of 100,000,000,000 gold marks, of which 20,000,000,000 were to serve as security for the interim payments up to May 1, 1921. Interest and amortization on the rest were to be paid during the thirty subsequent years. This alone implied an annual reparation payment of 1,000,000,000 gold marks, after 1921. To the Reparation Commission, provided for by the peace treaty, was assigned the task of deciding on the definite amount and the mode of payment of the reparations total. The plan was to be completed by May 1, 1921. (1)

Although the peace treaty did not come into force until January 10, 1920, it called for German payments of 20,000,000,000 gold marks before May 1, 1921, against which the deliveries provided by it were to be credited. Part of the rest of the amount was to be paid by

(1) Stolper, Gustave, "German Economy", Reynal and Hitchcock, New York, 1940, P. 139.

"deliveries in kind". On this count Germany was obligated to deliver over a decade at least 38,000,000 tons of coal a year, and huge quantities of chemicals and other commodities. The deliveries in kind began, in fact, in August, 1919; that is before the peace treaty came into force.

The following years up to the time of the Dawes Plan (1924) were filled with bitter controversies over the amount and mode of reparation payments. The Paris Resolutions of 1921 provided for the payment of 21,000,000,000 gold marks in the first two years, 3,000,000,000 each in the following three years, 4,000,000,000 again for three more years, 5,000,000,000 for the following three years, 6,000,000,000 for the next thirty-one years, and in addition 26 percent of the proceeds from German exports in each of these forty-two years. As the reparation payments in themselves forced Germany to fantastically huge exports, the 26 percent export duty constituted an additional reparation burden that would rapidly rise from 2,000,000,000 to 3,000,000,000 marks per annum. (1)

Already at that time the Allies tried to make the Germans accept this disastrous plan by occupying towns on the Rhine and in the Ruhr Basin and impounding customs duties in the occupied territory.

The London Ultimatum was hardly closer to reality than the Paris Resolutions. First, Germany's reparation debt was fixed at 132,000,000,000 gold marks, an amount which according to Lord Keynes, the famed British economist, exceeded by three times Germany's ability to pay. (2)

(1) Stolper, Gustave, "German Economy", Reynal and Hitchcock, New York, 1940, P. 140.

(2) Keynes proposed to put the reparation obligations at 42,000,000,000 gold marks of which 11,000,000,000 should be regarded as offset by the delivery of the ships. The balance would be paid in thirty annuities of 1,050,000,000 marks.

The reparation debt was to bear 6 percent annually in interest and amortization and gold mark bonds were to be issued by the Reparation Commission and serviced by reparation payments.

The reparation plan was presented to Germany in the form of an ultimatum. Should the German Government not accept within six days, the Ruhr Basin would be occupied. The German Reichstag accepted, by a bare majority and the plan was executed until 1922 at which time the Germans begged for a moratorium on cash payments up to the end of 1924, declaring themselves willing to keep up deliveries in kind to the maximum previously agreed upon. The moratorium was not granted, but in September, 1922, it was agreed that besides the goods in kind, the Germans were to pay 270,000,000 marks in six-month treasury certificates. (1)

3. Inflation.

German inflation was initiated by the London Ultimatum and soon the increase in note circulation progressed at such a rate that, notably in the last phases of the period, the printing presses failed literally to keep up with the required tempo. In the last months preceding the financial collapse more than three hundred paper mills worked day and night to deliver note paper to the Reich's bank and one hundred and fifty printing establishments had two thousand presses running twenty-four hours a day printing Reichbank notes.

This unfortunate situation, unparalleled in modern history, was caused by the credits the Reichbank granted to the Government and equally as important by its inflationary credits granted to business.

)1) Stolper, Gustave, "German Economy", Reynal and Hitchcock, New York, 1940, P. 141.

4. Profiteers and Victims.

Immense fortunes were accumulated by those possessing the ability and necessary banking connections to procure a maximum of commercial credits and to invest them rapidly in "physical values". These financiers were able to amass huge fortunes almost over night at the expense of the middle and poorer class who were pauperized by their activities.

All property invested at fixed money values such as government bonds, mortgages, mortgage bonds, and savings bank deposits became worthless thereby condemning the middle class to economic annihilation. Some relief was afforded to the middle class by revaluing long term money debts at a certain percentage of their original gold value. Mortgages were also revalued at 25 percent and all other debts at smaller percentages.

Finally, however, the collapse of the monetary system became complete, and the disaster of depreciation overtook everyone regardless of economic station. Money was no longer able to fulfill its proper function in a modern economic system. People reverted to bartering of goods and foreign money flowed into domestic circulation. Calculations in business and every kind of economic relation became more and more confused. Finally, the disturbances in all parts of the economic mechanism became so serious that, despite a further rise in prices, industrial employment began to grow.

5. Stabilization.

As mentioned in preceding pages, the cash resources of

the population had dwindled to an infinitesimal amount when expressed in gold. It could be taken for granted that these cash reserves would reassume normal dimensions from the very moment the public became convinced that further depreciation was no longer imminent. An increase in the circulation up to the new saturation point of cash reserves held by the public would thus have no inflationary effects, but would merely prevent a deflationary pressure on prices. A fairly wide margin existed for the Government to provide intermediary resources by means of the printing press without incurring the danger of new inflationary symptons.

B. The Dawes Plan.

In October, 1923, the President of the United States, Calvin Coolidge, took up a suggestion previously made by Secretary of State Hughes that the reparation problem be submitted to an inquiry by non-political experts. On November 30, 1923, the Reparation Commission nominated two committees of experts to study the reparation problem and to propose a new order of payments. The more important of these committees worked under the chairmanship of General Charles C. Dawes, later Vice-President of the United States. After careful study they laid a new reparation plan before the Reparation Commission which accepted it. Three months later all governments involved signified that they would abide by its provisions and on September 1, 1924, it went into force.

Although the Dawes Plan was merely a provisional solution of the

reparations problem it had two decisive merits as compared with all former plans. First, it replaced the fantastic annuities of former plans by amounts that seemed reasonable and just. Second, it was acknowledged by the plan that Germany needed a pause for recovery. The experts realized that the German economy, after almost a decade of the most harrowing experiences, must be granted a respite in which to produce the surplus goods required for delivery abroad. This respite was to be divided into two periods, one of quasi total indulgence and one of a partial resumption of payments.

For five years the Dawes Plan worked with admirable precision. All payments were made promptly and exactly on the appointed days in the agreed amounts. The replacement of the Dawes Plan in 1930 by the Young Plan was by no means a consequence of Germany's inability to fulfill the Dawes obligations. It merely expressed the general wish to replace the "provisional" Dawes Plan with a "final" reparation plan.

C. The Young Plan.

The Young Plan agreed upon by the Allies and Germany on January 30, 1930, was based upon the recommendations of a committee of experts headed by Owen D. Young, Chairman of the Board, General Electric Company. It was supposed to set up a final schedule of payments which it did by making the annuities terminate in 1988. For the first two years the plan provided for a considerable reduction from 2,500,000,000 to 1,700,000,000 marks each year. Then in slow progression the maximum annuities were to be reached in 1965-66 at 2,429,000,000 marks annually. After that a degression was to bring

annuities down to 898,000,000 marks in the last reparation year 1987-88.

The Young Plan not only allowed a substantial immediate reduction in reparation payments; it also freed Germany from the humiliation of foreign controlling agencies. However, from the German viewpoint these advantages were offset by a project to commercialize part of the reparations program. The Allies hoped by this expedient to raise very substantial amounts on the capital markets of the world, particularly in the United States. Allied circles at that time favored the idea of a huge international loan, whose interest was to be serviced by Germany and credited to her on the reparations account. It was also believed that commercial debts were safer than political debts. The Young Loan issued in June 1930, netted as much as 1,200,000,000 marks, but the issuing of further portions was checked by the outbreak of the "Depression". (1)

D. Prosperity Era 1924-1930.

The economic recovery in the second phase of the Weimar Republic was unparalleled in scope and intensity. What made it all the more incredulous was that at this time Germany was pledged to pay a war indemnity unheard of in the history of any country. However, her industries managed to attain once more an amazing standard in technological equipment and she began to regain the leading position in those branches in which she had led before World War I; namely, chemical, electrical, optical, engineering and textile industries.

It was not merely a figure of speech to say that in these six

(1) Stolper, Gustav, "German Economy", Reynal and Hitchcock, New York, 1940, P. 173.

years a new Germany was built up. This is true not only of the industrial spheres but also urban housing stimulated by state subsidies experienced a terrific growth. Slum areas were cleared and replaced by bright, artistic, large and small scale housing units. Municipalities competed with another in constructing playgrounds, swimming pools, schools and hospitals. Transmission lines of electric power were rebuilt and modernized. The merchant fleet ceded to the Allies was almost completely replaced by new and more effective units. In 1926 already German exports had regained theprewar level of more than 10,000,000,000 marks; in 1929, they exceeded the 1913 figures by 34 percent, despite the loss of territory in Europe and of all colonies.

E. The Collapse of the Republic.

In the course of fifteen years, three catastrophes befell Germany. The first, the military catastrophe of 1918 gave birth to the Republic. From the second, the utter collapse of the currency in 1923, the young republic seemingly recovered miraculously, but in reality the social repercussions and consequences of the inflation were a continual drain on its vitality. The third and final catastrophe, the economic crisis of the 1930's resulted in the downfall of the Republic.

1. Agrarian Crisis.

The German agricultural crisis was essentially a problem of the "rye belt" and rye had long been an issue in German agriculture. In years of poor crops, rye was in great demand whereas in prosperous years the price was determined not by its use as bread cereal but

rather by the amount used as fodder. This particular economic formula may be compared to the similar "corn hog" ration familiar to all students of economics in this country. The farmers in the rye belt were over burdened with debt and insolvent, and unfortunately the rye belt was largely the area of the big estates. These estates were occupied by the Prussian landed aristocracy, better known as Junkers. This group, although considerably undermined by the progressive social and political legislation fostered by the Republic, still occupied a very awe inspiring position. They remained bitter towards the Republic because of the attempts to break up and divide their vast estates when Chancellor Heinrich Brüning, now professor of Government at Harvard University, initiated emergency decrees to liquidate their lands. They appealed to one of their number President Paul von Hindenburg who brought about the downfall of the Brüning Government.

2. The Banking Crisis.

German banking had developed the mixed type of deposit and investment banks, a type of bank particularly vulnerable in a crisis. The banks in the boom period failed to set aside an adequate part of their inflowing capital as reserves and invested their depositors' money in venturesome and risky industrial and trading enterprises.

Two events brought the banking crisis to a climax. The success of the National Socialist Party in the Reichstag elections of September 1930, caused the first panic among creditors. The second blow came from the Austrian banking crisis, which in May, 1931, culminated in

the crash of the Austrian Creditanstalt, one of the oldest and largest international banks in Central Europe. The September elections resulted in a rush of withdrawals of foreign deposits, but after the Austrian alarm signal a general run on the banks came so swiftly that it could no longer be mastered.

3. Moratorium.

The Government proclaimed a bank holiday in order to prevent open bankruptcy of the banks. All bank deposits of large banks were guaranteed by the Government and became in effect state banking institutions. Also a moratorium on foreign short-term credits was combined with rigid regulation and restriction of the foreign exchange market.

4. Deflation.

Germany had become a prisoner of her own inflation experiences and the deflation policy entailed heavy sacrifices and remained largely ineffective. The horrors of the inflation of the early 1920's were still too fresh in the minds of the people to allow the Government to pursue a policy which they believed might foretell another crisis.

Prices and wages already government controlled were forced down to the very level they would have achieved under a natural elastic system. The difference between a natural and inforced price decline is, however, that nobody can find who is responsible for the former but the government is always blamed for the latter. The "consumer" is benefited by a deflation policy, but the "producer" is hurt and the latter proved the most articulate in making his feelings known

in the right places. Unemployment continued to rise to a total of 6,031,000 in March, 1932. It was decided to abruptly about face and reverse the economic policy of the country by the Brüning Government. They decided to extend credit facilities but at the same time to safeguard any inflationary trends by strict government regulation of prices. However, in the midst of these preparations Brüning and his cabinet were dismissed.

5. The End of the Republic.

On May 30, 1932, Dr. Brüning was replaced by Franz von Papen, who was called upon to establish an "authoritarian" regime, at least for the period of transition. Von Papen, a wily diplomat and conservative Roman Catholic plunged into his duties with gusto. However, he pursued a high handed policy and soon alienated the factions that backed him in forming the government. The power behind the throne, a political general, Kurt von Schleicher, who had made and over-thrown Brüning and made and backed von Papen had to step to the fore himself and form a government because of the wave of political strikes instigated by hostile Nazis and Communists. Von Schleicher attempted to gain the support of the trade unions and at the same time split the Nazi party by winning over its left wing. However, this plan never matured in that von Papen took his vengeance by plotting with Hitler to force von Schleicher's retirement. Hitler thus ascended to power in Germany despite the fact that less than 44 percent of German voters had cast their ballots for National Socialist Party candidates aspiring to seats in the Reichstag.

CHAPTER IV

THE THIRD REICH

A. The National Socialist Movement.

1. Beginning.

At the time of its foundation, the National Socialist movement was not an economic movement. Both its initial expansion and final coming into power, however, occurred in periods when Germany was beset by critical economic crisis and the people were desperately seeking a system offering relief.

The party was founded in 1920, when the Weimar regime was battling in vain against the rapidly rising tide of inflation. It took its first revolutionary action in 1923 when, during the French invasion of the Ruhr district, the German currency and with it thewhole economic system collapsed completely. For a few years the Nazi movement appeared to have died out and in the Reichstag's of the 1920's the party was represented by about a dozen members. This representation jumped suddenly to 107 in September 1930 and from that point until the end of the Republic by Hitler's appointment as Chancellor on January 30, 1933, the constitution of the German Republic was non-existent.

2. Capitalism and the Party.

The National Socialist party was from the outset an anti-capitalist party and as such was fighting and competing against Marxism. Born at a time immediately after World War I when socialization of Germany and perhaps of all Europe seemed inevitable to many, the Nazi program attacked the problem in a way that was not new

to the Weimar Constitution. The Nazis adopted and exaggerated the principles of Weimar rather than attacking them which aided in wooing the masses.

By accepting the principle of the citizen being subservient to the state, the Nazis emphasized their antagonism towards a democratic, competitive society and in a sense practiced Socialism. The masses were told that only exploitation of the people resulted from following democratic capitalism.

Among the most effective slogans introduced by National Socialism none made a more lasting impression on the German people than "Break the Bonds of Interest Slavery". The terrifying years of uncontrolled inflation that followed World War I created a fear of high prices and worthless money that could not be controlled. The Nazis played upon these fears of the people with reckless abandon, however it is interesting to note that the National Socialist movement which benefited so immensely from inflation was itself predicated upon a strictly regulated inflationist program.

3. State Control of Industry.

The nationalization of big industry was never attempted as such after the Nazis came into power, but the socialization of the entire productive machinery, both agricultural and industrial was achieved by methods other than expropriation. The results of this program was on an immeasurably more comprehensive scale than the authors of the party program of 1920 probably ever imagined. In fact, not only were the big trusts gradually but rapidly subjected to

governmental control, but so was every sort of economic activity, leaving not much more than the empty title of private ownership. Gradually but rapidly, out of the necessity first of creating employment and later of building up a huge armament system, grew an economic dictator as well as a political dictator. (1)

4. Agriculture.

As early as the autumn of 1933, the whole agricultural sector of Germany's economic life was organized into a sort of public, compulsory cartel including not only producers, landowners, and tenants of every size of holding, but also the processors, wholesalers, and retailers of agricultural products. Marketing Boards comparable to the code authorities of the defunct N.R.A. fixed prices, regulated supplies and prescribed permissable charges for the various phases of processing. For some products certain prescribed quantities could be ordered for delivery by individual farmers but processors were bound to confine themselves to certain qualities which were sold through the organizations prescribed by the authorities. The farmer was forced to grow what he was ordered to grow and had to use stipulated types of seeds. He was even told what sort and what quantity of fertilizer he should apply and he was under strict supervision with respect to his technical methods.

(1) Sweezy, Maxim, "The Structure of the Nazi Economy", Harvard University Press, Cambridge, 1941, P. 26.

As the prices the farmer received were relatively satisfactory and several good crops were had, the farmer was relatively well off. Nevertheless, Germany did not come even close to the goal of self sufficiency in food which the above program was destined to achieve. As a matter of fact agricultural production from 1933 to 1938 showed very little increase despite increasing amounts of machinery, fertilizer and cheap labor in the form of various youth organizations of the party. (1)

5. Industry and Trade.

The complete German economy was an extremely complicated organization which included without any exceptions everyone engaged in business and commerce. They were subject to all the decrees, regulations and controls the Government saw fit to order.

Within the framework of the comprehensive organization every businessman was told what to produce, the methods of production to be applied, how much coal and raw materials he was to be apportioned, which materials he might and might not use, prices he was to pay for products bought and prices to be charged for products sold. The businessman was even told from whom he could accept orders, to whom and through whom he could sell and the order of priority by which his sales had to be made. If the businessman failed to carry out the Government's decrees, the courts and secret police would very effectively either ruin him or make him conform.

The basic requisite for this military planned economy was of course, complete control over exports and imports. Not a single carload could

(1) Stolper, Gustave, "German Economy", Reynal and Hitchcock, New York, 1940, P. 245.

cross a German border in either direction without a special permit from the Government. No German was supposed to sell anything abroad without such a permit and the importer could not buy where he could get the best quality at the lowest price. On the other hand, the exporter could not sell wherever he found a competitive opportunity.

The so-called Second Four Year Plan was announced by Adolph Hitler in the following words at the Nuremberg Party rally of September, 1936:

> "Within four years Germany shall be independent from all foreign countries in respect to all those materials which it can produce at home by means of German ingenuity, our mining, engineering, and chemical industries. When the process of rearmament has been completed, the labor now employed therein will be diverted into productive channels through the development of the great new German raw material industry."

That program as well as the entire organization of the National Socialist economy had its precedent in the war economy developed during the 1914-1918 blockade. At that time and ever since, Germany was bent upon developing substitute materials and attaining a goal of self sufficiency which was never realized. (1)

Apart from the development of substitute materials, Germany made every effort to develop her own resources of raw materials irrespective of costs. They included oil, flax, iron ore, copper and zinc. Success however, was again not realized and Germany remained dependent for more than two thirds of her consumption upon foreign supply, primarily from Sweden which provided about 60 percent of Germany's ore imports.

Despite every effort to increase Germany's foreign trade, little progress was made from 1932 to 1939. Whatever surplus could be

(1) Stolper, Gustave, "German Economy", Reynal and Hitchcock, New York, 1940, P. 250.

achieved in foreign trade was needed to pay a part of the foreign debt service wherever the purchasing countries had the power to withhold for this purpose the balance in their trade with Germany. This was true of virtually all European creditor countries and as a result Germany's foreign trade shifted more and more to the nations of southeastern Europe, while trade with western Europe lagged. Substantial progress was also made in German trade with Latin American Countries.

6. Financial Policy.

The financial policy of Nazi Germany was not developed on a preconceived plan, rather it was improvised, and its methods modified as needs arose. One aim however was very plain: The preservation of the purchasing power of the mark. The Government realized very early that with rapidly growing, deficits, government expenditure, and credit expansion, nothing would prevent a rising tide of inflation if the purchasing power of the masses was allowed to grow with the money supply. Therefore, from the very beginning, the Government insisted on keeping wages and prices rigidly fixed.

The income of the working class, however, rose because of the rapidly expanding production and overtime pay. But at the same time the limited supply of materials had to be reserved for the nation's military purposes which necessitated measures aimed at keeping consumption down. Increased taxation and forced savings were used to drain away the consumer income in excess of consumer goods.

7. Status of Labor.

On May 2, 1933, all offices of all unions in Germany were seized by Storm Troopers, their leaders and officers arrested, maltreated, or sent to concentration camps, and their property confiscated. The autonomous organizations of German labor, built up over several decades and enormously strengthened, particularly in fifteen years of Republican regime, were destroyed in one day. They were inherited by the German Labor Front which was no longer an organization of workers. It was a section of the National Socialist Party, and included not only workers and employees, but also all enterpreneours and professional men.

Apart from regulating wages and hours, the Labor Front assumed duties with which former unions were never nor could have been concerned. Social Honor Courts were set up to judge "gross violations of social duties". Employers, if found guilty of evading the above duties, could heavily be fined or excluded from the management of their property. On the other hand, employees could be prosecuted for agitation among the workers which meant dismissal and subsequent starvation. Workers could not leave their jobs without permission of the proper authorities and if they did they were not permitted to find employment anywhere else or seek relief. Every worker was supplied with a work book. A black mark in the work book amounted to a death sentence which made it ever so clear that the status of the individual employee under Nazi rule virtually degenerated to serfdom. Labor was apportioned to industry in the same way and on the same principle as raw materials, and the worker could be ordered to any part of the country at any time. His family, left behind, were taken care of at fixed low rates.

8. Cartels.

No better insight into the German strategy of economic war could be contrived than the history of Interessen Gemeinschaft Farbenindustrie Altiengesellschaft, commonly known as I. G. Farben. The record of I. G. Farben in the twentieth century is a recital of Germany's attempt to use scientific achievements to become a major world power. While I. G. Farben may have preferred to gain its own ends and enchance the power and wealth of Germany by economic means, it has consistently abetted and given force to military plans. This huge combine was by all standards of measurement the largest corporation in Europe, and one of the largest in the world ranking below only the insurance and utility companies, and the colossal Standard Oil Company of New Jersey. As an industrial and chemical combine, however, I. G. Farben was among the handful of truly world-wide international industrial concerns.

E. I. du Pont de Nemours & Co. is the oldest and largest of the "Big Four" of the American chemical industry, and one of the staunchest of the industrial baronies in this country. The armistice had hardly been signed before Dupont representatives were on their way to visit I. G. Farben for the purpose of forming an alliance. (1)

A tentative agreement was worked out for the organization of a world company to exploit a process for synthetic ammonia. Dupont also sought information and technical instruction in the dyestuffs industry. Although I.G. Farben was not adverse to an agreement with Dupont, the two could not reach complete accord on the relative division of control. However, in 1926, it was revealed that Dupont had about three million

(1) Borkin, Joseph and Welsh, Charles A., "Germany's Master Plan", Duell, Sloan and Pierce, New York, 1943, P. 88.

dollars invested directly in I. G. Farben's stock and with the British Imperial Chemical Interests Ltd. owned minority interests in I. G. Subsidiaries. (1)

On January 1, 1926, an agreement was reached between Dupont, Imperial Chemical Interests Ltd., and I. G. Farben which effectually divided the world market for military power. This agreement discussed in the hearing of the Nye Committee in 1934, was found in the Dupont files marked "Unsigned - in effect as a gentlemens agreement". Under this agreement patent licenses and technical information were exchanged, and since, in deference to the Versailles Treaty, the German Companies could not sell military explosives in other countries, Dupont became, in effect, their sales agent. To quote the Nye Report, "In other words though German munitions companies cannot sell abroad, American Companies can sell for them, and to their own Government at that". (2)

Because of Dupont's position in our chemical industry in particular, and our economy in general, it may seem quite astonishing and unbelievable that such close ties existed between I. G. Farben and Dupont even as late as 1939. However, the previous statements are a matter of record and have not been denied by the Dupont organization.

The history of dyestuffs reveals the strategy and tactics of German Geopolitik from the time Germany became a nation to the present time. An indication of the significance of the dye industry was the position of I. G. Farbenindustrie which translated literally means "Dye Industry."

(1) Borkin, Joseph, and Welch, Charles A., "Germany's Master Plan", Duell, Sloan and Pearce, New York, 1943, P. 89.

(2) Ibid, P. 90.

Explosives, poison and noxious gasses, antitoxins and serums, so essential to warfare belong to the same chemical category as do dyestuffs. The few basic coal, tar and organic compounds can be used to make several hundred types of so-called "intermediates" which may in turn be used with equal facility to make dyes, medicines or explosives. Consequently, research in the dye industry has effects in all other branches of the organic chemical industry. Out of the German dye laboratories have come phosgene, among the deadliest of gases, as well as salvarsan and sulphanilamide, the magic bullets used to destroy diseases. The whole paradox of science is illustrated in these aspects of the dyestuffs industry. Compounds almost identical in chemical properties can be used to kill or cure, as weapons of man against man or as man against the destructive forces of nature.

In reviewing the operation of the dye cartel up to the outbreak of World War II, there were certain features which may be noted. Without considering the relative positions of the principal members including, I. G. Farben, Dupont, and the Imperial Chemical Interests of Great Britain, it was apparent that the entire world, with the exception of Russia, was organized in a more or less complete fashion. All of Europe, all of North America, all of the major countries of South America, and all of Asia were divided up among the principal dyestuffs producers. Allocation of territory, interchange of patents and technical information, fixing of production quotas and prices, and all other behavior characteristics of international cartels were to be found in the web of agreements and understandings. In the center of

the web spinning out a filament in every direction could be found I. G. Farben.

Germany's metal reserves have always been scanty and in her search for "ersatz" or substitute materials she, years ago, saw in plastics the ideal material with which to round out the stock pile. The appearance of plastics upon the industrial scene is relatively recent. The industry in this country at present produces annually about 300,000,000 pounds of plastics valued at approximately $500,000,000. (1) Their uses have not only been of a substitute variety, but because of their many new characteristics, they have probably supplanted many uses of glass, metals and wood permanently. Plastics are the genies of the test tube, which are called up to remedy shortages.

There are many kinds of plastics, but Germany channelized its science in the development of one of the most important, namely, methyl methacrylate, which is better known in the United States under the trade name of plexiglass or lucite. When the development of plexiglass blossomed into commercial practicability in 1934, an agreement was entered into between Rohm and Haas (Darmstadt) and Rohm and Haas (Philadelphia) both subsidiaries of I. G. Farben covering the field. The Philadelphia firm was limited to the United States and Canada and received the exclusive rights to patents in this territory. The right to export elsewhere was prohibited. The German company, on the other hand, retained rights to the rest of the world. The American company even agreed to do whatever they could to prevent their customers from

(1) New York Times, October 8, 1945. P. 4.

reselling into the territory of the German Company.

Friendly firms including General Aniline Works and Standard I. G. Corporation were granted licenses to operate in these territories upon agreeing that Rohm and Haas (Philadelphia) would be the sole supplier of raw materials on the basis of cost plus 10%.

Dupont also entered this German dominated cartel in 1936 and later Imperial Chemical Industries of Great Britain also entered into an agreement with I. G. Farben and Dupont. This group was successful in completely dominating the world plastics industry until the outbreak of World War II severed relations between the conspirators. (1)

Even in the drugs industry, I. G. Farben was dominant. American branches of the Bayer Company were seized by the Alien Property Custodian upon the entrance of the United States into World War I. However, soon after the Bayer interests were purchased by the Sterling products Company from the Alien Property Custodian, they were busy entering into agreements with the German Bayer Company, a member of I. G. Farben. While this 1920 agreement related basically to the sale of aspirin in South America it broke the ground for future dealings. In effect, the agreement provided that competition between Bayer and Sterling in South America was to be eliminated, and it was a forerunner of many future agreements which committed American drug firms to a secondary role in a production dominated by I. G. Farben. (2)

The Aluminum Company of America, in the person of its created partner, the Aluminum Company Ltd. of Canada, was a partner in a world

(1) Borkin, Joseph, and Welsh, Charles A., "Germany's Master Plan", Duell, Sloan and Pearce, New York, 1943, P. 120.

(2) Ibid, P. 138.

aluminum cartel to be later dominated by Germany. A Swiss Corporation known as the "alliance" was formed at Basle, Switzerland, and issued 1,400 shares of "A" stock, subscribed by the members in the ratio of one share of stock for each 100 metric tons of their respective annual capacities. The entire world production was to be fixed by the Alliance as well as fixing prices and restricting local production universally throughout the world. The Aluminum Company of America although officially not a member of the cartel did not disturb the cartels markets either by accident or design and if it had the cartel never could have functioned. Germany soon engineered a scheme within the cartel which placed her as the number one world's producer of aluminum. This ascendency of Germany in aluminum was unimpaired and because of it Germany's successes in the first years of World War II were assured. (1)

At the end of World War I, the demand for magnesium declined as did the output, and as a result, the price fell to one-third of its former level. Of the eight concerns in the United States which had been engaged in the production of magnesium only two continued in the industry. These were the Dow Chemical Company and the American Magnesium Company, a wholly owned subsidiary of the Aluminum Company of America. However, in 1927, the American Magnesium Company ceased production and the Aluminum Company of America became Dow's largest customer and was granted preference as against all other customers of Dow. In 1928, I. G. Farben approached Dow attempting to enter the American market. Dow refused to go along and in 1931, I. G. Farben and

(1) Mendershavsen, Horst, "Economics of War", Prentice Hall Inc., New York, 1943, P. 53.

the Aluminum Corporation of America formed a joint corporation known as the Magnesium Development Company. Dow proceded to make a deal with the Aluminum Corporation of America acting for the joint American-German Corporation which insured Dow of its own monopoly in the production of magnesium metal in the United States. It was agreed, however, that magnesium was to be sold to I. G. Farben interests for substantially less than the American market was paying. For example, magnesium that sold in the American market for thirty cents a pound was to be sold to I. G. Farben for twenty cents a pound or a discount of 33-1/3%. Germany's magnesium production expanded as rapidly as facilities could be increased and this again is an example of how Germany created her war stock piles with the aid of American sponsored cartels. (1)

Iron ore was one vital mineral that Germany lacked and for which no adequate substitute could be provided. Germany depended upon foreign supply for more than two thirds of her consumption. Sweden was the largest supplier providing about 60 percent of Germany's import of ore. Vast stock piles were created and the firm of Krupp became Germany's largest consumer of iron ore. As the foremost German producer of steel and steel products, and as member of several international cartels, Krupp continued to expand and reach out into different branches of metallurgy. Eventually German steel production, which rose from year to year, far outstripped the other nations of Europe who had in 1926 formed a steel cartel. This also included England, whose steel makers

(1) Borkin, Joseph, and Welsh, Charles A., "Germany's Master Plan", Duell, Sloan and Pearce, New York, 1943, P. 230.

continued to observe the limits set forth in the various agreements.

Standard Oil Company of New Jersey and I. G. Farben in 1927 made a series of agreements in which the two colossal world operators agreed to eliminate competition between themselves. This was done by recognizing the position of Standard Oil in the oil industry and the position of I. G. Farben in the chemical industry. Standard Oil received carte blanche in the oil industry of the world with the exception of the domestic German Market, I. G. Farben, in turn, was assured a free hand in the entire chemical industry of the world including the United States, a differential that was to embarrass Standard Oil at a later date. (1)

The patents of I. G. Farben and Standard Oil were pooled so that Standard Oil received not only the benefits of its own research in oil technology, but also received the benefit of any discoveries made by I. G. Farben. It was intended that this patent consolidation would so fortify Standard Oil that other oil refiners would be reduced to a subordinate position, thus rendering them susceptible to the formation of a gigantic patent pool covering the entire oil industry. (2)

The Standard--I. G. cartel was in its scope and implications larger, more powerful and in some respects of greater significance than any other international economic agreement that has been discussed. This structure was a mighty fortress built to withstand any assult by the forces of competition on the territory of Standard Oil or I. G. Farben, and a safe base from which sorties into other industries could be initiated.

(1) Borkin, Joseph and Welsh, Charles A., "Germany's Master Plan", Duell, Sloan and Pearce, New York, 1943, P. 80.

(2) Ibid, P. 185.

CHAPTER V

WORLD WAR II

A. German Position Immediately Prior to Outbreak of War.

By the end of 1938, Germany had reached the crucial point of her economic expansion -- the point where the last reserves in man power, material, and productive capacity had been utilized in the service of the most ambitious power politics ever adopted by any government in modern times. Germany had gradually an economic system that could have been maintained indefinitely without financial collapse providing the government did not venture to far astray and the people continued to endure complete deprivation of industrial liberties. The survival of the German system offered no insuperable financial problem. A government that completely controls (by a most comprehensive terror system) foreign trade, domestic consumption, cost of production and domestic investments is always able to procure the financial means for its purposes. And it is of secondary importance whether these means are raised by taxation, short-term or long-term borrowing, or even by printing paper money. The danger points arise if and when a government undertakes to push expansion beyond the natural limits of available resources.

This danger point had already been reached at the end of 1938 in Germany, and for this reason, Dr. Hjalmar Schacht resigned from the Reisch bank. (1) Labor had been exploited beyond all limits and efficiency was decreasing. For this reason, coal production had begun to decline because production per man and shift was falling off. For

(1) Stolper, Gustave, "German Economy", Reynal and Hitchcock, New York, 1940, P. 272.

the same reason, the quality of production had begun to deteriorate and the war-bent German nation even before the war was officially declared as showing signs of the uttermost strain. (1)

B. Great Britain and France Declare War.

1. Immediate Cause.

Hitler's decision to invade Poland brought down upon his head the declaration of war against the invader by Great Britain and France on that historic day, September 3, 1939. Whether Hitler believed that after Great Britain's capitulation at Munich and desertion of the Czechs, she would fail to declare war unless more fully prepared to, is still open to argument. However, the fact remains that German hordes did invade Poland and everlastingly to her credit Great Britain was faced with the task of combating one of the most powerful war machines of all time. France, however, at the time was supposed to possess a powerful well-drilled army and the vaunted Maginot Line, but whether British intelligence had a true picture of French corruption and inefficiency, has never been disclosed.

2. Economic position of opponents.

From the point of view of natural resources and basic industrial capacity, Germany and her allies began World War II in an inferior position. There were no materials that the British and French empires could not have produced in better quality and greater volume. The devastating failure of these empires consisted in misjudging the security of their position and in neglecting the timely mobilization of their huge resources. As a result in the first years of the war, the Axis powers were able to win great military victories

(1) Stolper, Gustave, "German Economy", Reynal and Hitchcock, New York, 1940, P. 273.

and to wrest important resources from their opponents. Their Armies produced iron ore, bauxite, coal, oil and foodstuffs. They gained most of the world's current supply of rubber and tin. And yet, in the middle of 1942, the United Nations still commanded superior resources in almost all essential fields. They could draw on an oil supply more than ten times as large as that of the Axis, on sixty times the cotton, six times the copper, and twice the coal and steel. (1) The United Nations had a tremendous advantage in the armament races entered upon by the belligerents and quasi-belligerents. They started with huge unused reserves and could save all the billions Germany spent on plants for the production of expensive substitute materials by being able to buy cheap natural materials.

3. British responsibility.

Outside of those special groups who have some particular racial, religious or party hatred of the Nazis, the most fanatical German-hater now at large is Lord Robert Vansittart who served as permanent Head of the British Foreign Office under the Conservative or Tory Government for a considerable period of time prior to the outbreak of the war. It is a matter of historical record that the policy of the above Governments was to encourage and strengthen Hitler and make him feel certain of a British benevolent neutrality as long as he confined his series of invasions to the east. Vansittart was the man who guided the Tory foreign policy which went under the popular name of "Appeasement", but really was one of collaboration with the

(1) Mendershausen, Horst, "Economics of War", Prentice-Hall Inc., New York, 1943, Page 53.

Nazis in rearming Germany and developing an aggressive policy in Eastern Europe. We have been accustomed to saddle responsibility for this upon the Baldwin and Chamberlain Governments, upon their Foreign Ministers, and outside the Government upon the so-called Clivedon Set, which met at Lady Astor's estate. (1)

Perhaps the best brief presentation of Vansittart's foreign policies in the critical '30s is that contributed to "The Nation" back in October 1937, by the veteran, brilliant and extremely well-informed foreign correspondent of the Manchester Guardian, Robert Dell. Says Dell of the general control and over-all direction of British foreign policy during the '30s:

"Ever since Vansittart became permanent Head of the British Foreign Office, he has made British foreign policy, whether the marionette of the movement was called Simon, Hoare, or Eden."

According to Mr. Dell, Vansittart's ominous foreign policy was based on the following leading objectives:

1. Absolutely to keep England out of war unless the most vital interests of the British Empire are involved.

2. To maintain the indispensable alliance with France as a protection against possible German aggression, while ruthlessly subordinating the national interests of France to British foreign policy.

3. To be on the best of terms with Hitlerite Germany, to encourage German ambitions in eastern Europe, and to use this German expansion in eastern Europe as a means of keeping Hitler from demanding a return of the German colonies.

(1) Barnes, Harry E., "Britain's Top War Criminal", the Progressive, Volume IX, Number 37, P. 8.

4. To obstruct, if possible, a German-Italian alliance.

5. To detach France from her Eastern European alliances and obligations so that the German expansion in the East, which Vansittart fostered, would not involve France and Britain in war.

It was this policy of Vansittart which led England to acquiesce in, and then encourage, German rearmament, to come to a naval agreement with Germany, to consent to German reoccupation of the Rhineland, to refuse to call Mussolini's bluff relative to the invasion of Ethiopia, and to favor German aggression in Eastern Europe from 1937 to 1939. Germany was encouraged to seek dominion on the Continent, in order to lessen the demand of German colonists for the restoration of the German colonial empire and to check the reassertion of German ambitions for expansion overseas--a type of expansion which would directly menace the British Empire.

This unfortunate policy brought Hitler and his Germany out of weakness, obscurity and penury. It started Nazi Germany on the road to rearmament, occupation of the Rhineland, annexation of Austria, partition of Czechoslovakia, and the demands on Poland which led to the outbreak of the second World War.

4. Fall of France.

An almost fatal blow was struck at the Allied cause when the high-geared and mobile German Wehrmacht swept across the French borders, swung around and flanked the heretofore considered impregnable Marginot Line and disastrously defeated French forces on French soil. The Frency Army which had been previously considered by Great Britain and the United States to be a well officered and well-disciplined fighting force, was in reality disclosed to be a leaderless uniformed mob torn with political corruption and gross inefficiency. Equipment which

on paper appeared to be the best and most up to date obtainable in reality did not put in an appearance. Behind this unfortunate Army, stood a government also torn by dissension and corruption and led by party politicians who were wholly unequal to emergency war leadership. Charges and countercharges have been issued where the Army accused the government of selling them out and vice versa. However, France's defeat proved she, as a nation, had been deteriorating into a corrupt and self-satisfied country, since the year 1930. Lacking strong and potent leadership to arrest this condition, France proved to be an easy victim of the German military might such to the discomfort of a startled Great Britain and an awakened United States.

C. Russo-German Situation.

1. Non-Aggression pact and division of Poland.

Russia and Germany although utterly incompatible insofar as political philosophies are concerned and natural enemies entered into a non-agression pact because at that time it was expedient for each to do so. Hitler's rise to power was attributed to his anti-communist stand and Russian leaders held no illusions as to where Hitler's eventual conquests would lead. However, after Hitler's conquest of Poland, Russia greedily took over the two-thirds of the country nearest her borders demanded as a price from Hitler for non-intervention.

2. Natural enemies.

Germany's blueprint for conquest was truly global and included the vast reaches of Asia and the riches of the Indies. To deprive its enemies of this wealth and to encircle Russia, were the objectives of Germany's eastern strategy.

In the ancient rivalry of peoples, no quarrel has burned

more steadily than the antagonism between the Teuton and the Slav. From Adolf of Holstein, the leader of the Teutonic Knights in the twelfth century, to Adolph Hitler, the concept recurring over and over again in German dreams is the Drang Nach Osten--the drive to the East. (1)

The land ocean of Russia had surged across the path to German world dominion. To the West lay Britain--the gateway to the seas. To the North were the silent waters of ice. The Russian land bridge to the East was, therefore, the path across which German armies were to trod. The fertile valley of the Ukraine would supply the food for the Wehrmacht on the march and what was more important, beyond the bridge of Russia was the fabulous wealth of Asia. All the ersatz materials which Germany so painfully contrived in its laboratories existed in natural abundance beyond the Caucasus and in the Indies were endless deposits of oil. The virgin resources of Asia beckoned and only the Russian Bear stood guard. (2)

3. Germany Decides to Invade.

Adolph Hitler was sold upon the invading of Russia despite the warnings of the General Staff that a Russian campaign, although inevitable, could not be undertaken while Great Britain remained unconquered. German intelligence reports, however, indicated that Russia was wide awake and mobilizing rapidly. Hitler argued that if Germany did not assume the initiative and invade right away, Russia would be far better prepared and might assume the initiative herself. The will of Hitler prevailed despite the objections of the General Staff and the

(1) Borkin, Charles, "Germany's Master Plan", Sloan and Pearce, New York, 1943, P. 158.

(2) Borkin, Charles, "Germany's Master Plan", Duell, Sloan and Pearce, New York, 1943, P. 158.

German Legions emulating the earlier operations of Napoleon's Armies stormed through Western Russia pursuing retreating Red Forces to the very citadel of Russian Communism. A combination of a brave Russian stand, superior manpower, sagging supply lines, adverse weather conditions, and United States lend lease equipment brought about the disastrous German retreat which ended in her inglorious defeat on the Eastern Front.

D. Pearl Harbor Attack Seals Doom of Germany.

Japan, the counterpart of the Axis in the East, was regarded by Germany as an ally, not by choice, but by necessity. The Germans distrusted the Japanese and, no doubt, the feeling was mutual. The two countries, although Japan had conquered stock piles of critical materials that Germany needed, and required herself German industrial aid, were in no geographical position to coordinate their activities. The British and unofficial American Navies roamed the seas practically unchallenged which made it impossible for the Germans and the Japanese to exchange assets and coordinate activities.

Hitler desired to maneuver Japan into a position where she would declare war on Russia, therefore, causing Russia to fight a two-front war. The wily Japanese, however, were not interested in such plans, and continued to remain at peace with Russia thereby contributed largely to Germany's defeat on the Eastern Front.

1. Efforts of Germany to Keep United States Out of War.

Hitler and his advisors had no illusions as to what the entrance of the United States into the war would mean. Germany leaned over backwards desperately trying to keep the United States out even though this nation was partaking for all intents and purposes, in an undeclared war against the Axis. America was the arsenal of

democracy supplying munitions and supplies to Great Britain and Russia. American merchant vessels convoyed by American naval sea and aircraft took possession of the North Atlantic, carrying lend lease supplies to Europe. These activities termed "acts short of war" by the late President Roosevelt, were technically war-like acts which ordinarily would call for strong protests from the offended power. However, Germany not desiring to give the United States an excuse to enter the conflict on a full-fledged basis chose in most cases, to ignore these belligerent acts. The Germans realized that wealthy America, the most highly industrialized nation in the history of the world, and in possession of raw materials, foodstuffs and labor in huge quantities, would seal Germany's doom if she were to be brought into the conflict.

Then on that tragic day in December, 1941, the treacherous Japanese struck at Pearl Harbor, the blow that brogght the full industrial and military might of the United States into the conflict. Insofar as it has been able to determine, Nazi Germany was as fully stunned as the United States after the attack took place, and the German Government then realized that Japan had plunged them into war with the United States. Many of the wiser heads in Germany realized at that time that Germany's days of conquest were numbered for the vast industrial and military potential of the United States was a giant slow to rise from his long slumber, but once aroused, would become an unbeatable foe.

E. Causes of German Defeat.

1. Air Superiority.

Germany, after losing air superiority in early 1943, soon

found themselves being punished in an ever increasing tempo by Allied aircraft having a field day over Nazi territory. In late 1944 and early 1945, vast fleets of United States' bombers and fighters roamed almost at will, bombing industry and transport, and shooting up trains and trucks. Thousands of British bombers nightly blastered wide areas of German Territory. (1)

2. Manpower.

In addition to the great air offensive, United States and British Forces on the Western Front forced a demoralized and outnumbered, but still bitterly resisting German Army into the Northern Reich. On the Eastern Front, vast Russian Forces pushed across the Oder River and these two great drives added up to a knock out for the Germans crushed between the twin drive pincers. The Ruhr, centered of the Nazi industry, was invaded and captured, and coupled with previous loss of vital industries in Silesia proved to be a major crippling blow. (2)

3. Material.

Germany had lost the sources of raw materials that were the backbone of her power to wage war. That loss was a part of the price that Germany had to pay for defeats in Silesia, Poland, East Prussia and Pomerania, for earlier defeats in France, the Ukraine and the Balkans, and for bombings resulting from defeat in the air. Mining capacity was cut from 550,000,000 tons to 400,000,000 tons in 1944 and the movement of available coal was hampered by bombed out railroad systems. Germany became short of coal for running railroads, making electricity,

(1) United States News, "Air Powers Decisive Test", Volume XVIII, Number 10, March 9, 1945, P. 11.

(2) United States News, "Allies Final Drive", Volume XVIII, Number 11, March 16, 1945. P. 11.

and for the conversion to synthetic gasolene, synthetic rubber and chemicals. The annual rate of oil output in late 1944 and early 1945 was cut from 16,000,000 tons to 3,500,000 tons. All of her refineries were captured or bombed out of commission and only three or four synthetic plants were working. Thousands of German tanks, trucks and other vehicles were stranded for lack of fuel. In one day near Glogau, the Russians captured 345 planes, most of them out of gas. (1) Steel production declined from 36,000,000 tons to 12,000,000 tons in February 1945. Lack of steel meant lack of tanks, guns, and every other type of weapon in addition to inadequate trucks and railroad rolling stock to rush reinforcements and supplies to the front. Germany also lost one-fourth of her lead, half of her copper and zinc, two-thirds of her manganese, three-fourths of her aluminum, four fifths of her tungsten and nickle, and nine-tenths of her chrome. Thus, the general offensive of the Allies, once it was in full swing, found Germany short of supplies that were vital to her continued resistance. (2)

F. Cost of the War Years in Lives and Dollars to the United States.

The total United States casualties in World War II, although much less than had been anticipated, cost almost three hundred thousand lives as compared to fifty three thousand lives in World War I. In the German war alone, Army losses in dead and missing passed 175,000. Navy losses, not broken down by theaters, were relatively small. (3)

War against Japan cost 54,000 Army casualties and 63,471 Naval casualties. (4)

(1) United States News, "Why Germany Can't Last", Volume XVIII, Number 9, March 2, 1945, P. 28.

(2) United States News, "Why Germany Can't Last", Volume XVIII, Number 9, March 2, 1945, P. 29.

(3) United States News, "The Price Paid by United States,", Volume XIX, Number 8, August 24, 1945, P. 48.

(4) Ibid, Page 49.

Losses in American lives in these two wars, were the greatest in the nation's history, yet as stated above were far less than anticipated. At one time there was expectation that 1,000,000 United States lives might have to be spent to force a surrender in Japan through invasion. Bombing, however, removed that necessity.

In dollars, World War II will have cost $336,000,000,000 when the direct war cost bills are all paid. That is eleven times the cost of the first World War. To break these figures down still further, the war in Europe was estimated to have cost $200,000,000,000 and dollar costs of defeating the Japanese are put at about $136,000,000,000. The cost in dollars is not everything that is evidenced by a dollar sign in that the vast coal, iron ore, oil, copper, lead, zinc and lumber resources the United States possesses were exploited for war purposes and never can be replaced. (1)

(1) United States News, "Cost of the War to Taxpayers", Volume XIX, Number 3, July 20, 1945, Page 32.

CHAPTER VI

ALLIED OCCUPATION AND THE PEACE

A. Four Power Occupation.

In February 1945, on the eve of the German collapse, the Allies met at Yalta and at this conference the division of Germany was proposed. It was planned that the forces of the United States, Russia, Great Britain, and France each occupy a separate zone. But since it was clearly impossible for the Allies to rule Germany without some kind of an Allied Control Commission consisting of the Supreme Commanders of the four occupying powers with headquarters in Berlin. For this quadriparte system of occupation, no precedent existed. Not only has no country of Germany's size and potential economic and political power been placed under direct rule by foreign occupation forces for a long period of time, but no conquered nation has ever been ruled as a condominium by four powers. Differences in language, as well as the diversity of political and economic concepts existing among the Allies, have made the operation of a more highly integrated system of Allied military government extremely difficult. But the single most important factor responsible for the adoption of the zonal plan of occupation was Russia's fears and suspicions that the Western powers might support Anti-Soviet groups in eastern Germany if British and American forces were permitted to enter that section of the country. (1) Under these conditions,

(1) Hadsel, Winifred N., "Foreign Policy Reports" Volume XXI, Number 16, P. 224.

any alternative to the Yalta plan for partition of Germany probably was impossible. But since the United States and Britain have frequently deprecated all steps that strengthen the trend toward a divided Europe, the two Western powers might well have expressed their convictions on this point by making a stronger attempt to secure a unified Allied administration of Germany.

1. Allied Control Council.

The Allied Control Council was set up by the victorious nations to rule Germany as a unit from its headquarters in Berlin, However, from the outset this body has been torn by dissension and internal rivalries and has had a difficult time making up its mind on the simplest of issues. (1) In practice Germany is now partitioned into four segements outlined for the purposes of military occupation. Between these military zones there are distinct frontiers which are incompatible with the agreed policy of securing uniformity of treatment of the civilian population throughout Germany. French opposition to certain provisions of the Potsdam Pact has constantly deadlocked the Council and a compromise settlement on the questions of the Rhineland and the Ruhr that will satisfy the French desire for security has not been yet effected. The Allies might well re-examine the provision for unanimous decisions by the Allied Control Council in favor of majority rule. A divided Germany should be avoided at all costs, since it would definitely encourage the further division of Europe, and endanger the alliance that won the war,

(1) United States News, "Growing Stresses in Germany", Volume XIX, Number 9, August 31, 1945, P. 19.

which remains the only hope for establishing a framework for keeping the peace.

2. Russian Zone.

The Russian zone contains the area known as the "bread basket" of Germany and includes the cities of Berlin, Leipzig and Dresden. Eastern Germany and lower East Prussia formerly were also included as the principal suppliers of foodstuffs for industrial Germany. These areas are a part of the new Poland which is a puppet state dominated by Russia. Food surpluses in these areas were sent eastward rather than westward which added to chaotic conditions of the starving Germans residing in Central and Western Germany. It is quite apparent that the Potsdam provision that Germany "be treated as a single economic unit", did not apply in these areas. (1) It is also well to note that Russian troops live off the land and receive no supplies of foodstuffs from their own country. Much of this area was also highly industrialized, but if recent press reports are to be regarded as authentic, most of the desirable plants and equipment have been dismantled and transported to Western Russia.

3. French Zone.

The French zone is unimportant industrially except for the Saar, which is being worked for the aid of France rather than Germany, and all surplus food in this zone was exported to France. The French have been a constant source of difficulty in the Allied Control Council,

(1) United States News, "Growing Stresses in Germany", Volume XIX, Number 9, August 31, 1945.

and although labeled as obstructionists by both the United States and Great Britain, have continued to demand the dismemberment of Germany by internationalization of the industrial Ruhr. This discord among the members of the Allied Control Council of which France has been a persistent offender has seriously hampered the occupational operation of Germany. (1) It has been suggested that a contributory cause to this chaotic condition are the rules set forth in the Potsdam Agreement which require unanimity of the four powers on all Allied Control Council decisions. (2)

4. British Zone.

The British occupy the northwestern portion of Germany which is densely populated and highly industrialized. It includes the ports of Hamburg and Kiel and the inland cities of Cologne, Dusseldorf, Essen, Bremen and Hanover. The population of this zone is mostly industrial workers, miners, and tradesmen, but little land is available for them to turn to food production. It is not possible to employ this population because industrial equipment that could give employment has been sent to Russia as reparations and miners are refusing to perform their duties unless food is forthcoming. They cannot be induced to work for increased wages and the British authorities fully realize that miners must have a diet of greater than 1300 calories a day in order to produce in any quantity. Special rations of food have been issued to miners by the

(1) These subjects will be discussed in greater detail under the sections, "Potsdam Agreement" and "French Version".

(2) United States News, "Discord of Allies on German Rule", Volume XIX, Number 26, December 14, 1945, P. 35.

British who imported it from their fast dwindling stores in Britain. (1)

5. U. S. Zone

South central Germany except for a small area nearest to the French border is occupied by the United States. The zone includes all of Bavaria and the cities of Munich, Nuremberg, Stuttgart and Mannheim. Originally this area was almost self sufficient and its small Bavarian farms aided in feeding the rest of Germany. However, at the present time farms are overcrowded and there is little surplus arable land available to settle the 2,000,000 or more Germans who fled the Russian zone or were deported from Czechoslovakia, Poland and Hungry. Industrially this area is not of great importance and the war plants built by the Naxis in 1940 and 1941 have been for the most part destroyed by Allied bombing.

6. Danish Activity.

In contrast to above policy, Denmark adopted a sensible and humane attitude toward German refugees from Polish and Russian zones. Military barracks originally built by the occupying Germans were used to house the refugees who were first ordered to submit to hot baths and numerous "shots" before being allowed to take up occupancy. The occupants soon were busily engaged painting and otherwise making livable their temporary quarters. Most of these persons were women, children and older persons, and the Danish government is making a concerted effort to reunite the families separated in the last days of the war. These refugees are going to be provided with

(1) United States News, "Hazards for Four Zone Control", Volume XIX, Number 27, December 21, 1945, P. 19.

seed and garden equipment which will allow them to raise their own foodstuffs and other skilled tradesmen are being utilized in re-establishing the few Danish industries in existance prior to the war. (1) The Danes feel that despite previous German occupation, a harsh policy towards Germans will only bring about an insuperable desire for revenge resulting in another war. (2)

7. Czechs in Sudentenland.

The activities of the Czechs in the Sudentenland had been little publicized in the United States press, but investigation has disclosed that the infamous policy of the victors has resulted in the deaths of thousands of Germans and Sudenten Czechs. Survivors of the innumerable "death marches" have straggled, into the Russian and U.S. zones in a pitiful and starving condition. Tales of wholesale uprooting of Sudeten Germans and Czechs from ancestral farms and homes that have been occupied for generations have been transmitted to Allied intelligence agencies. These people, old and young, were driven from their homes and ordered to wander the winter roads with only what they could carry in their hands. The old soon perished by the side of the road and a small minority of survivors from time to time drifted into Berlin and other cities. The Czechs executed a ruthless and criminal policy of expelling everyone of German blood with the exception of a few highly skilled tradesmen from her borders, and the caring for of these survivors had been assumed by the Allied Control Council. (3)

(1) Chamberlain, William H., "Common Sense About the Peace", the Progressive, Volume 9, Number 141, P. 2.

(2) For further discussion refer to heading "Hard vs. Soft Peace".

(3) Chamberlain, William H., "The Crimes of the Peace", The Progressive, Volume 10, Number 10, March 11, 1946, P. 1.

B. Allied Administrative Policy.

For the second time in thirty years, the United States, Russia, Britain and France have beaten Germany in war. The responsibilities of the winning powers are to teach the ways of peace to the 66,000,000 Germans who are at their mercy, and to rebuild a Europe that has been seared by war throughout almost its entire length and breadth.

The victory, documented by formal signing of unconditional surrender terms, put into Allied hands the whole chaotic mass that was the Reich. The Allies got the soldiers and sailors, the trucks, tanks, and guns of the Army, the ships and submarines of the Navy. They have the industries, arms plants, textile mills, coal mines railroads down to the last battered boxcar, and farms down to the last stray cow.

Now that the Allies rule Germany, they must devise a peace settlement for the country that all of them will be willing and able to enforce over a long period of time. Although precise decisions concerning Germany's new frontiers and future economic and political regime all call for careful consideration, these are matters of secondary importance compared to the need for united Allied support of whatever settlement is adopted. However, at the present time, we find a bitter rivalry between Russia, on the one hand, and the Western powers, on the other, for the control of Germany. This highly dangerous situation is causing the Allies to face the Germans as a divided group torn by dissention and unable to coordinate their German policies.

1. Military Rule.

The military governments in the four zones have adopted

rival policies toward Germany because each one of the Big Four had its own particular national interests in Germany. Russia whose western territories have been devastated by the Nazis, is primarily concerned with the rapid reconstruction of these areas and knows this can be best accomplished by securing German industrial plants as reparations. The French, like the Russians, are also interested in obtaining German equipment as restitution for the destruction and looting the Germans carried out in France. From a long-range point of view, both the Russians and French are determined that Germany shall be so greatly weakened as to be unable to undertake future wars against them. In addition, Moscow wishes to make certain that Germany will be incapable of adding any considerable strength to the western bloc the Russians continue to fear may be erected.

To the British, on the other hand, a weakened Germany does not appear an unmixed blessing. Since Britain's major post-war need will be markets, there has been a tendency on the part of many Britishers, in both official and unofficial circles, to insist that no punitive measures be taken against Germany that would permanently prevent it from purchasing goods abroad. Faced by growing competition from the greatly expanding industries of the United States, Britain has become increasingly concerned about the German market, and the possible effects of Germany's collapse on the economy of western Europe. The stake of the United States in the future of Germany is less specific than that of the Russians, French and British, for the American post-war economy

is not largely dependent for its prosperity either on reparations in kind or exports to the Reich. Nevertheless, any consideration of American security reveals the basic interest of the United States is preventing Germany from going to war again, either alone or in combination with one of the great powers, since such a war would undoubtedly involve this country even more quickly and completely than did the last two world wars. (1)

President Roosevelt by-passed the State and War Departments in 1944 and requested the Secretary of the Treasury to draw up a plan for the disposal of Germany. (2) This "hard" plan expressed the conviction that Germany's key industries should be removed or destroyed lest American tendencies toward a lenient peace permit the Germans to regain their strength. (3) Almost immediately criticism developed within the Roosevelt administration of the "hard" policy towards Germany. On the one hand, a modified version of the Morgenthau proposals became the basis of the military directive the Joints Chiefs of Staff prepared for the guidance of General Eisenhower on occupation of German territories. (4) But while these "hard" terms were adopted by American military officials, the State Department and the Foreign Economic

(1) For an analysis of the policies, the Allies are pursuing in Germany, see series of articles from Berlin and Paris by Vim Dean, "Foreign Policy Bulletin", November 2, 9, 19, 1945.

(2) For further details refer to heading entitled, "Morganthau Plan".

(3) Morgenthau, Henry Jr., "Germany is our Problem", Harper, New York, 1945, P. 1-4.

(4) This directive was sent to General Eisenhower in April 1945, but kept secret until its text was released by Secretary of State Byrnes on October 17, 1945, New York Times, October 18, 1945.

Administration insisted that these measures were unworkable. This indecision in Washington as to whether a "hard" or "soft" policy should be followed in Germany was one important factor in hindering the formation of a united Allied program for occupation of the Reich.

In February 1945 at Yalta, the Big Three declared in the official communique that "The goal of the United Nations is to destroy German militarism and Nazism thus assuring that Germany will never again be able to disturb the peace of the world". To implement this plan, the "Big Three" declared their intention to break up the General Staff; remove or destroy all German military equipment; eliminate or control all German industry that could be used for military production; bring all war criminals to just and swift punishment and exact reparations in kind for the destruction wrought by the Germans. So far as German territories were concerned, the communique hinted that the Reich would be considerably reduced. These punitive measures set forth by the Allies were somewhat offset, however, by the rather vague statement that "it is not our purpose to destroy the people of Germany, but only when Nazism and Militarism have been destroyed will there be hope for a decent life for Germans, and a place for them in the comity of nations". (1)

2. Contrast in Policies--Germany and Japan.

Recently the Marshall Field newspapers, which had been early adherents to the Morgenthau doctrine of a "hard" peace published a series of articles by Ed Johnson, their foreign correspondent in Germany, on "Four Power Occupation".

(1) Department of State Bulletin, "The Crimea Conference", Volume XIII, Number 286, P. 448.

"The American Soldiers who are occupying and governing the U.S. zones in Germany believe overwhelmingly we are making a failure out of the job;" said Johnson.

"The great majority want to pull out and go home--the sooner the better. They are sick of Germany, sick of the Army. And they are disgusted by the failures of the four military governments."

Taking stock of our nine months achievement in Germany, Johnson reports:

1. "We have failed to gain the respect of German adults, either for the United States or for the ideals we represent."

2. "We have failed to start a comprehensive program of re-educating children in democratic, Anti-Nazi, and Anti-Militarist ways."

3. "We have failed to reward adequately the few Germans who earned the right to our consideration by opposing Hitlerism or to care for the many who suffered from Hitlerism."

4. "We have failed to tell either the Germans of our own fellows what king of a Germany we want them to rebuild."

Johnson asserted that "economically too the Allied system of four zone control--if it can be called a system--has produced an 'absurd' situation. The economic planning of the country's future has been dictated according to the beliefs and peculiarities of the occupying country of the particular zone. Each of the four zones is being constructed--insofar as one can use this idealist form--in autharchic isolation."

Compare this with what has happened in Japan under the unified Allied Administration of General MacArthur. While Japanese war criminals, militarists, and economic dynasties are being systematically

removed from seats of power, the rest of the people of Japan are being given every opportunity to build the first foundations of a democratic society.

With no inter-zone wrangling or economic compartmentalization to impede progress, the Allied command has taken decisive steps to democratize the schools, the press, the radio, the movies, and the political life of Japan. The interlocking directorate of imperialists, militarists, and monopolists that has ruled Japan with an iron hand has been smashed. The great financial and industrial families--the Zaibatsu--have been handed their death sentence as economic overlords. (1)

In a significant statement ordering the break up of Japan's ruling families and cartel system, General MacArthur set basic Allied policy by decreeing that all combines must be smashed so as to permit "wider distribution of income and ownership of the means of production and trade in Japan and to aid the Japanese economic development along peaceful, democratic lines."

This is the pattern of our policy in Japan. It is to be admitted that imperial japan has not been converted to a democratic, peace-loving nation overnight, but it has launched us--and the Japanese--along a course that holds incalculable hope for the future.

Allied policy in Japan has been the reverse--in terms of administration and in terms of basic philosophy--of Allied policy in Germany. And naturally enought, it is producing the opposite result of what is happening in Germany, as reported by General Eisenhower, the

(1) Rubin, Maurice, "Germany and Japan", the Progressive, Volume 10, Number 2, January 14, 1946, P. 8.

G. I.'s and the press. (1)

3. Suffering and Mistreatment of German Civilian Population.

Conditions have become so intolerable in occupied Germany that many members of the British Parliament and a number of leading English journals are demanding the immediate review of the entire mess with a view to make a fresh start along saner, more hopeful, and more democratic lines.

Norman Clark, Berlin correspondent of the London News-Chronicle, reported an item which was widely suppressed in the American press:

"Faced with the prospect of a disaster overwhelming a whole nation, the Allied public health authorities are ordering burgomasters to take measures ensuring the easy burial of the dead in the Winter. Graves are to be dug in November by men who in later months will be debilitated by weeks of undernourishment and will not have strength to dig at that time."

Commenting on this report, the London Tribune, left-wing weekly of Aneurin Bevan, made this comment:

"Imagine for a moment that this report had appeared not in a British paper in November, 1945, but in a Nazi paper some time before the Battle of Stalingrad, imagine that the town from which it was written was not Berlin, but Warsaw or Kharkou or Amsterdam.

"A wave of horror would have swept the free world; no words would have been strong enough to denounce the barbarity unveiled by this report. Yet what is happening now, after the defeat of Nazi

(1) See section entitled "Eisenhower Report".

Germany is nothing less than the transformation of a large part of the country into one huge Belsen. We are as efficient, it appears, as the Nazis were--ordering the men to dig their own graves, before their energy is sapped by hunger, cold and disease". (1)

But there is much more to the grim picture. The London Tribune sifts through countless reports from correspondents, officials, and soldiers to report that, "In the Eastern part of Germany, the activities of the Russian Army of occupation have rendered eventual reconstruction, on however modest a scale, impossible. In Berlin, and in other places, almost every piece of machinery, office furniture, and equipment of any description including bicycles, bedding, telephones, watches, and practically every vehicle that can be got hold of is going East. This means that the local population is left practically without food and without tools, or other means of repairing their houses, roads and sewers. They are unable to produce even the most primitive necessities of life." (2)

The London Tribune further reports that "In violation of the Potsdam Agreement, the wholesale expulsion of all Germans from the Polish-occupied areas east of the rivers Oder and Neisse and from the Sudetenland in Czechoslovakia is bringing a stream of utterly destitute refugees into the Berlin area. There is no food, shelter, clothing or medical attention for them there, so they are driven out to die on the roads or starve in camps, just as the Nazis' victims were left to starve in Belsen. And this is not a handful of people: some eight or nine

(1) London Tribune, November 14, 1945, P. 3.

(2) London Tribune, December 7, 1945, P. 18.

million human beings are effected among them staunch Anti-Nazis." (1)

Dorothy Thompson in her syndicated column related the following information: "In the Russian zone, which together with the Polish, comprises half of Germany, 50 percent of the crop is lost. The stripping of industries in the East and the demobilization of others in the West and South have added to the break down. Efforts to bring coal have partly succeeded, but lack of transportation piles it at pit heads. Mills that should be turning out plows, rails, locomotives, machinery for all Europe, are idle. Only 5 to 7 per cent of industry is operating."

"Military officers whose position does not permit them to come before the public, communicate with me and tell of frightful conditions, especially in the East. One reports: 'In six months large parts of Germany will be shelterless Buchenwalds of starved corpses. Trains and trucks coming from the East with refugees from the Polish and Czech territories are arriving with corpses and the barely living, many of them children. These are often tossed out of trains and trucks upon the roads.'

"In Berlin in August out of 2866 children born, 1148 died--and it was summer, and food more plentiful than now. The current issue of the British Nineteenth Century and After in an article entitled 'Orderly and Humane', draws the most horrifying picture since the opening of the concentration camps.

"From Vienna a reliable source reports that in the Russian

(1) London Tribune, December 7, 1945, P. 19.

zone no one has had food except dried peas, bread, and a little oil in six months. Infant mortality is approaching 100 percent; slight ailments result in death from lack of resistance. Tuberculosis and rickets are becoming universal." (1)

Catherine Coyne in her series of articles appearing in the Boston Herald relates the picture of the little children in the U.S. zone who were forced to scavenge. Miss Coyne says, "to me they constitute a far sadder spectacle than destroyed cities and wrecked cathedrals. Here in Germany, children did the same thing in France, in Belgium and in Holland, little boys and girls gather at meal time beside the garbage barrel at Army mess centers. As soldiers emerge to empty their messkits, the little ones hold up pails or baskets begging for leavings--leavings frequently consisting of mixture of vegetables, meat and fruit or pudding. At the larger messes, where troops eat from plates, the children must wait for big barrels to be put out--then they compete for advantageous positions for diving in for choice morsels of discarded food. Children then trail troops to pick up discarded buts which, remade into cigarettes, are sold for fabulous prices."

Miss Coyne continues, "Truck drivers have a nerve-wracking job on the potato run. For more than five miles they must run the gauntlet of Berlin's children, sharp, pale-faced little boys and girls, who have memorized every turn and bump in the road that might be expected to jar the truck sufficiently to knock off a potato or two. At these strategic points, children lie in wait as quasi-legal hi-jackers. They are armed with long sticks with nails on the ends for spearing potatoes, even

(1) Thompson, Dorothy, "Germany Skidding Into Abyss", Boston Globe, December 3, 1945.

though frequently they must dart into the path of roaring trucks in this dangerous game. Some of the older boys use curved sticks to knock the vegetables from the speeding trucks although they risk their lives to do it. (1)

Bishop Henry Knox Sherrill, bishop of the Episcopal diocese of Massachusetts, traveled extensively through Germany as a representative of the Federal Councils of Churches of Christ in America. Upon his return to the United States, Bishop Sherrill said, "We must not allow ourselves to be falsely sentimental about our former enemies, but we should do all in our power to alleviate unnecessary suffering. Worst of all conditions in Germany today is the expulsion of millions from their homes in territory once German. This winter evacuation is causing thousands of deaths and untold suffering. They are without food, medical supplies, adequate clothing and shelter. Children and old people die en route, many diseases are becoming epidemics and the cruelty accompanying this evacuation will effect all of Europe and manifest itself in wide spread disease in the present and in hatred tomorrow." (2)

Bishop Sherrill questioned whether it was necessary to evacuate millions during the winter months. The trains pouring into Berlin and other German cities contain the most pathetic specimens of humanity imaginable, he declared. (3)

4. Attitude of U.S. Occupation Forces.

Fifteen months ago when it was evident the war against

(1) Coyne, Catherine, "Europe's Children Scavenge Food", Boston Herald, November 26, 1945, P. 19.

(2) Boston Herald, December 12, 1945.

(3) Boston Post, December 12, 1945.

Germany would continue through what promised to be a severe winter, American soldiers were buoying themselves by glumly saying to one another: "Just wail until we get to Berlin and watch these Heinies squirm." Now they are in Berlin. Now they see Germans squirm and suffer--but they find no satisfaction in the spectacle. Rather they find the role of conqueror a heavy weight on their hearts and a constant irritation to their tempers.

Catherine Coyne relates observing guards from the 78th Infantry Division kicking the bomb-scared wall of Berlin's Anhalter railway station in helpless rage and cursing "all stupid people." They were not cursing the docile wrecks of humanity who stood or sprawled on baggage or attempted pitiful bribery outside the station as they waited with frantic optimism for opportunity to get a ticket and train out of this depressingly evil capital. These men were decent American youth who had been able to fight in battle, but were choked with helpless rage by the mean degradation, by the slow starvation, by the personal obscenities that make up the picture of the defeated capital. (1) American men who killed in battle have found it hard to witness the death of old people whose hearts were unable to continue beating in their undernourished bodies. Their stomachs revolted at the sight of tired children trying to retch from empty stomachs.

The teen age green troops never tested in battle who have replaced the veterans find that the few duties assigned to occupation troops keep them far from occupied. Their thoughts wander to their homeland and defensively they work themselves up into almost a frenzy of homesickness that spreads like wildfire among the troops. They are

(1) Coyne, Catherine, "G.I.'s Despise Conqueror Role", Boston Herald, December 7, 1945.

merely trying to escape the miserable conditions into which they have been placed including German adults and children begging for scraps of food, black market activities among civilians and military alike, and certain officers living like rulers of a small empire and enjoying with relish their tour of duty. All these factors incite the G.I. to attend mass meetings and demand to be sent home which causes the United States to lose face in the eyes of the German civilian population.

"A young combat soldier threw his helmet into a corner of his barracks. He was inarticulate with rage, when he calmed down he said quietly 'I guess they'd better send me home in a straightjacket because I'm going insane. I thought we fought to make this a better world. It gets worse here every day and I can't do a thing about it. I want to go home'". (1)

5. The Price Report.

Byron Price, an experienced observer, was asked by President Truman to go to Germany to study the relationship between the American Forces of Occupation and the German people. His report to the President dated December 9, 1945, embodies eight specific suggestions which will be enumerated here. (2)

The principal problems as seen by Mr. Price were as follows:

1. "The entire basic structure of Military Government in Germany, including the Potsdam Declaration, should be re-examined in the light of experience and new conditions.

2. "The United States must decide whether we mean to finish the job competently, and provide the tools, the determination and the

(1)Coyne, Catherine, "G.I.'s Despise Conqueror Role", Boston Herald, December 7, 1945.

(2) Department of State Bulletin, "Report of Byron Price to the President", Volume XIII, Number 336, December 18, 1945, P. 885.

funds requisite to that purpose or withdraw.

3. "We must decide whether we are going to permit starvation, with attendant epidemics and disorders, in the American zone, or ship the food to prevent it.

4. "We must decide whether obstructions raised by the French Government, which have deadlocked the four-power Control Council at Berlin, are to defeat the underlying purposes of Allied policy.

5. "We have reached the stage where we must determine much more specifically that we are going to do about minor hirelings of the Nazi Party and its satellite agencies, and how far we are going in destroying the industrial structure of Germany.

5. "Not of least importance, it must be decided how fast and how far the Government is to go in changing from military to civilian control in Germany. Really competent civilian administrative personnel and advice must be provided from within the present governmental establishment at Washington if any such change over is to have a chance of succeeding.

7. "The urgency of these decisions is deepened not only by the continuing four-power deadlock at Berlin, but by the approach of winter. The next few months will be critical months. They will determine whether the American Government, in its first large-scale attempt at governing a conquered people, is to succeed, or fail, or abandon the effort.

8. "As cold weather begins, millions find themselves housed against the raw climate in rubble heaps and caves, without fuel for heating, and with a food supply rated by medical standards well below the level of subsistence. Just now these people are quiescent and lawlessness is negligible, although epidemics begin to threaten the health

of Western Europe. There is plenty of evidence, however, that the Germans are nursing old and new hatreds with mounting bitterness as their situation becomes more desperate; that they are listening hourly, with traditional credulity, for the voice of whatever type of new leader desperation may produce." (1)

6. Eisenhower Statement.

In a statement which exhibited more bitterness than he had hither to displayed publicly, General Dwight D. Eisenhower, formerly commander of the United States Forces in the European Theater, defended the great bulk of the occupation work done in Germany under his command and expressed resentment at newspaper criticism which took issue with his policies.

Pointing to press suggestions that he was pursuing a "softer" policy in Germany than was laid down at the Potsdam Conference, Eisenhower declared that the Army under his command would "uproot Nazism in every shape and form", and that any American officer who did not put his all into the denazification program would be transferred to another assignment.

General Eisenhower conceded that "we expect to have a lowering of efficiency as a result of denazification and we are prepared for that", but added that the American policy would in the long run, "give the Germans a chance to dig themselves out of the gutter." (2)

7. McNarney Report.

General Joseph McNarney, successor to General Eisenhower

(1) For complete text of Price Report, see Appendix.

(2) The Progressive, Volume IX, Number 42, December 2, 1945, P. 8.

as commander of the United States Forces in the European Theater, in his report to the President on December 27, 1945, presented a very grave and pessimistic picture of Allied occupation of Germany. McNarney reported that France's holdout on Allied plans for governing occupied Germany as a single unit, was creating an increasingly serious and difficult problem. French refusal to cooperate in the economic policies as laid down to govern Germany, has caused a great deal of unrest among the civilian population. McNarney said that France is holding German economy below the minimum level of tolerability and unless an understanding is immediately forthcoming, the Allied policy of government in Germany may be recorded in history as a complete failure. (1)

8. U. S. Army Intelligence Survey.

An exhaustive compilation of opinions recorded in a 20,000 word report by officers of the Military Intelligence Service, was released to officials of the United States Forces in the European Theater in December, 1945. This report was described officially as "more nearly true than any yet reported."

Bitter resentment and deep disappointment was voiced over the "Americans" first six months of occupation, although there was some praise for the improvements in transportation, health conditions, book publishing, and entertainment.

The conduct of American soldiers is watched with growing hatred and the Germans are especially incensed over American fraternization with what the Germans call women of low character.

They also voiced resentment because they said American soldiers dumped excess food into the gutter instead of dividing it with

(1) Boston Globe, December 28, 1945, P. 4.

Germans.

The report also revealed that the Germans vilified the post-war press, charging that exiles who had snug harbors outside the country during the war had been selected by the Americans as editors, and now were talking smugly to those who suffered during the conflict. They also charged that low-grade reporters were venting personal spites through the press.

Other complaints included what the Germans called the inequities in the American denazification policies, the clashes between American Military Government officials and their civilian appointees, the reported lack of legal procedure in the prosecution of persons arrested for war crimes and the delays in restoring even the minimum requirements for the production of food and civilian commodities. (1)

The survey revealed unfavorable comparisions between conditions in the American zone and those in the British, French and Russian zones even though the Germans said looting, rape and the depletion of native stock were rampant in the French zone and that conditions in the Russian zone were fearful with destitution and wreckage everywhere.

The uncertainty as to the future program of the United States was also reflected as torturing and demoralizing the population generally, with the specter of a Russian invasion and the absorbing of Germany into a communist sphere dominating the thinking of the educated as well as uneducated factions.

Discerning businessmen are baffled by the continual reversal of orders and decisions by military government officials and cannot understand why they can't reopen plants that could furnish employment

(1) King, James F., Boston Globe, December 13, 1945, P. 1.

and needed goods. Plants assembling farm equipment are not even allowed to operate, and without new farm machinery next year's crop must also fail and hunger continue. (1)

9. Problem of Feeding Germany.

The problem of feeding Germany is a grave one, and must be dealt with immediately if mass starvation is to be avoided. In times of peace, Germany, despite economical and scientific farming had to import more than half of her foodstuffs. (2)

The "breadbasket" of Germany is occupied by the Russians and Poles who stripped the fields and sent the crops eastward. The troops of these nations also live off the country which has rapidly depleted what stores of food were available. In the French zone all foodstuffs were seized and sent to France and in the British zone little arable land is available for cultivation. Small truck farms are located in the southern portion of the United States zone, but they are now overrun with refugees from other zones, and the farmers are unable to procure fertilizer, seed and farm equipment that would allow them to work their farms to maximum advantage.

The problem would seem to resolve itself into the necessity of providing a diet of subsistence level for the civilian population until they can again work their farms and resume trade with other nations. The only nation able and willing to provide this food is the United States, and if it is not forthcoming soon, our problems in Germany will be multiplied one hundred fold.

(1) McLaughlin, Kathleen, New York Times, December 3, 1945, P. 1.

(2) Stolper, Gustav, "German Economy", Reynald Hitchcock, New York, 1940, P. 245.

10. Dismantling of German industry.

The press has constantly carried reports of Russian demand and receipt of industrial plants and equipment all over Germany. The Russians moved in, dismantled the equipment, and carried it away to Western Russia. It is true that Germany had a surplus of equipment because her tremendous war production required it, and there is no question but what the Russians are entitled to the surplus equipment in the form of reparations. In the United States zone, however, we have blown up a few plants not requisitioned by the Russians and would have blown up a great many more if the State Department had not interceded.

The Germans have been for almost a century the most highly industrialized nation on the Continent and supplied much of Europe with the industrial goods and machinery required so badly at this time. Theoretically Germany has still the skilled labor and the facilities to continue supplying Europe with these goods in the form of reparations. The Allies have agreed to control the production of metals, chemicals, machinery, and other such items rather than calling for the destruction or removal of all German industry which might be directly useful to a war economy. However, the Russians continue to dismantle equipment and at the end of February 1946, less than seven percent of German industry was in operation. (1) The vast unemployment problem would also be aided immeasurably if industries required in a normal peacetime economy were placed in operation. The farmers need farm machinery to produce food in great quantities and limited plant production will aid in making Germany to some extent self supporting, thereby removing the burden

(1) New York Times, March 4, 1946.

from the United States.

11. Unchecked inflation.

The four zones in Germany have been pumped full of inflationary "printing press" money by the respective occupying powers and despite attempts at price control, inflation is enjoying a field day and black markets thrive. It has reached a point now where German civilians will work not for wages, but will only accept food or cigarettes. One cigarette on the German market will purchase the equal of five dollars worth of foodstuffs. The well-to-do Germans continue to live well as they trade with black market operators, however, the middle and working classes are subsisting on a starvation diet which is becoming more serious as the spring approaches. Butter sells on the black market for as much as two hundred dollars a pound and cigarettes at twenty dollars a package. Clothing and fuel sell for similar unreasonable prices which the average German cannot afford even with the abundance of "printing press" money. The Germans have the money, but it being next to worthless, will not purchase anything. The American dollar is the actual standard of exchange and is considered as such in black market circles. (1) It may be noted that until recently, business conscious U.S. Military personnel who sold cheap watches, clothing and equipment to Russian soldiers for fantastic prices, were able to redeem the worthless Russian occupation paper in United States currency with, of course, the United States standing the loss. However, this situation has been corrected and new regulations have been promulgated to end the costly practice.

C. Atrocities.

The Nazi atrocities as revealed in newspaper stories and photographs were unspeakable. They were almost unimaginable. Yet,

(1) Material assimilated by writer when associated with a federal intelligence agency.

every last one of them may be true and serve well the purpose of making us hate a prostrate enemy; worse yet, a prostrate nation. They make us hate not at a time when we have to fight, but at a time when we have to build a new world, a better world than the one that produced the Nazis.

1. Mass punishment.

It is our duty, and we have not shirked it, to track down the individual criminals, assess the degree of the offense in each case and administer exact justice. It might have been easier to punish a whole people who now suffering from disease and famine are undergoing punishment enough. Hitler would have indicted the whole people if conditions were reversed, but in all fairness the war criminals tried will probably be less than two percent of the total population.

Newspaper reports fortified by photographs, told us the story, but commonly overlooked was the fact that the majority of atrocity victims were themselves German citizens who for racial or political reasons were confined to camps. United States prisoners of war were not at any time placed in the infamous camps, and although subjected to some unnecessarily harsh treatment in many instances, most liberated prisoners agreed that they were treated according to the rules set forth by the Geneva Convention.

Goebels once said, "Even if we lose the war, we will win, because our ideals will have penetrated the hearts of our enemies." The Nazis were fighting for a fancies or real injustice, and if they drove us to commit another injustice, they would have won what they were

fighting for. (1)

2. Vengeance.

Atrocity stories sold newspapers and intensified the demand for a severe peace. Atrocity stories, if they succeeded in pursuading us that the whole German population was subhuman, would justify the dismemberment of Germany. Atrocity stories could drive us insane with hatred and divert us from the pressing problems that antedate Hitler. Spitting on Mussolini's corpse, or cutting the heart out of Hitler, or hitching a Japanese to a plow, may be sweet, but will it help us in our fanatic desire to build a better world?

Hitler rose to power in Munich with the single slogan of vengeance--vengeance against the real or fancied injustices of Versailles. Every Hitler has arisen that way, and it is our problem to prevent a future Hitler from inflaming the minds of his people with accounts of injustice and revenge.

3. French Version.

The following is based on revelations made in France in a number of conservative and Catholic papers including Figaro, Temps, Presents, and Temoignage Chretien, as well as reports of American correspondents among them Drew Middleton of the New York Times.

In an article in Figaro headed, "We Should Not Resemble Them," the following accusations are made:

"In certain camps for German prisioners of war, living skeletons may be seen, almost like those in German concentration camps, and deaths from undernourishment are numerous. We learn that prisoners have been savagely and systematically beaten and some have been employed

(1) Mayer, Milton, "Let the Swiss do It," The Progressive, Volume 9, Number 20, May 14, 1945.

in removing mines without protection equipment so that they have been condemned to death sooner or later."

The paper continues, "People, of course, will point to the Gestapo tortures, the gas chambers, and the mountain of human bodies found in the internment camps in Germany. But these horrors should not become sports competition in which we endeavor to outdo the Nazis. If the Allies intend to deliver blow for blow and eye for eye, the horror will never end. We have to judge the enemy, but we have a duty not to resemble him."

United States Army authorities who have turned over at least a million healthy prisoners of war to the French, only to have two hundred thousand starved and diseased men returned because they were no longer fit for work requested the American Red Cross to make an investigation. The Red Cross officials brought back a thorough and complete report that not only confirmed the previously reported conditions, but included pictures of prisoners that were not unlike those taken at Dachau and Buchenwald.

French industry, according to the Red Cross, was paying their slave labor the same wage as to French workers, so as to meet the protests of the French unions, but these wages, an average of 150 francs a day, would go to the Government, not to the prisoners. The Government in turn would pay the prisoners 10 francs and the upkeep of the prisoners would cost only about 40 francs. The operation would leave a net profit of 175,000,000 francs a day which the French Government did not wish to lose.

The United States Army after receiving this report,

required France to provide specific guarantees of adequate treatment of prisoners if she were to receive further shipments, since many high officers felt that the Army's honor had been sullied by the manner in which the French treated the prisoners captured by United States forces. However, from September through January 90,000 skeletons were returned to the United States Army including 10,000 stretcher cases. The French promised to mend the error of their ways, but it is not quite clear if they ever did so. (1)

D. The Peace.

Whatever the future holds in store for us, every decent human being must be grateful that the use of wholesale murder to achieve a new order in Europe, is at an end. Everyone who has a spark of humanity in his soul must feel that the ending of the slaughter of human beings for five and one half years is beyond price. Never since the Middle Ages have women and children, as well as unarmed men, the aged, the sick, the miserable everywhere been so brutally and ruthlessly destroyed. The aftermath of victory in Germany and the occupied countries must of necessity make greater demands upon our resources, our statesmanship, and upon our ability to overcome difficulties greater than we have ever encountered before.

1. Victory for whom?

This was the German situation in April, 1945. We occupied a country with its urban life completely shattered, many of its factories destroyed, its homes in a number of cities 90 percent obliterated, local transportation lines out of business, electric light systems gutted, every normal civic process at an end, and all

(1) Clair, Louis, "The Revival of the Slave Trade", The Progressive, Volume 10, Number 2, January 14, 1946.

government officials under grave suspicion, or expelled, or dead.

Almost every bank was wiped out and only one insurance company survived. The owners of homes had no redress; the holders of mortgages had no security left; the owners of stocks and bonds dug them out from under tons of rubble; and the beneficiaries of the insured were unable to collect their money. As for government bonds, they were worthless. The survivors of the Armed Services after being demobilized, could not seek employment when the entire industrial machinery was prostrate and destroyed.

This is the utter chaotic condition in which the Allies found Germany, a country suffering from a complete collapse of the social and political economy.

Judge Samuel Rosenman reported to President Truman upon returning from Europe:

"United States economy would be deeply affected unless northwest Europe again resumes its place in the international exchange of goods and services. Furthermore, a chaotic and hungry Europe is not a fertile ground in which stable democratic, and friendly governments can be reared. (1)

2. Meetings of the Big Three.

Dorothy Thompson, in her syndicated column written on the eve of the meeting of the Big Three Foreign Ministers at Moscow, seemed to sense the cynical attitude of many Americans regarding peace and cooperation in the world to be.

Miss Thompson wrote, "One cannot look forward with confidence to the outcome of the meeting among the Big Three Foreign

(1) Villard, Oswald G., "After Victory", The Progressive, Volume 9, Number 23, May 14, 1945.

Ministers. The last meeting broke up over Molotov's demand for exclusion of France and China. They will not be present at this one. It was Washington's turn to be host--but the meeting is in Moscow. The press won't be there at all."

"We are afraid of the communique that eventually will be issued. Most people will not read it through--for the people are afraid. They have a sense that wrong doing is going on; they do not want to learn more about the wrong doing, because they can do nothing about it. When there is nothing you can do, after a while you cease to think about what ought to be done, or could be done.

"The people do not accept what is going on. They do not reject it in any organized way, but they do not accept it. They feel we are not going in the right direction--not at all in the right direction--perhaps not in any direction. The people feel alarm, but do not know why.

"The leaders have taken away the peoples' ideals, and when that happens, despair sets in, not despair over material things, but despair over everything pertaining to the world of tomorrow. The war is senseless, everything is a lie, as the Atlantic Charter became a lie when Yalta and Potsdam became the truth.

"Then everybody fears everyone else, because the cohesion of the people is an emotion of faith, an ideal that faith says can be realized; but where there is no common faith in an ideal, there is only cynicism, and that divides everybody from everybody else. That is disintergration.

"The Big Three are called 'Russia', 'Great Britain', the 'United States', but the people know that 'Russia', 'Great Britain', and the 'United

States' are not meeting in Moscow. The Big Three are just three men, and the people do not think they are greater or bigger than others like themselves.

"Lincoln and Jefferson still sound like the United States. F. D. R. sounded like the United States, when he stayed home. Churchill sounded like Great Britain in the blitz; he sounded like Shakespeare and Burke. But the communiques from Yalta and Potsdam did not sound like the United States or Great Britain or Russia, as I have heard her in great literature. They sounded curiously like Hitler.

"The people feel as though they were in the world, and yet not in it, for they have nothing to say about it, they must accept it, and they are hurt, bewildered and angry." (1)

3. Morgenthau Plan.

Henry Morgenthau, Jr.'s plan for disposing of Germany as set forth in his book "Germany is Our Problem", purports to be in the interests not only of the victorious United Nations, but in the interests of the German people as well.

The book is obviously written for the "men in the street" with a twinkle of the eye for the expert: "Well you know, for them you've got to lay it on a bit thick"--which makes for another wry commentary on the strength of the democratic convictions of a long-time high official of the United States Government.

Disraeli once said that there are three sorts of lies: Lies by affirmation, lies by omission, and statistics. Here are some of Mr. Morgenthau's "Statistics":

(1) Thompson, Dorothy, "People Seen in Mute Anger as Big Three Meet in Moscow", Boston Glove, December 17, 1945.

Morgenthau wants to eliminate all German heavy industry and to resettle the surplus population of many millions on the land. But where is the land to come from since large slices of Germany will be cut off, while the population will remain the same? The author performs all sorts of juggler's operations to accomplish this miracle.

Operation No. 1. The size of his new farms will be twelve acres, which he proclaims to be quite sufficient to support a family. Has anybody in America seen a family farm of twelve acres? Well, in Germany also a reasonable size of a farm that can support a family is about thirty-five acres on the average.

Operation No. 2. Where is the land for even the millions of twelve acre farms to come from? Morgenthau affirms: "Mostly from splitting up of the landed estates". He forgets to mention the large landed estates are mainly east of the Oder-Neisse line and have thus been taken away from Germany through the Potsdam decisions.

Operation No. 3. Morgenthau admits that though the Hitler regime made extraordinary efforts to attain self-sufficiency in foodstuffs, it never succeeded and had to continue food imports. (1) But he nevertheless wants Germany not only to become self-sufficient, but even to export foodstuffs to pay for all the necessary imports of raw materials and products of heavy industry. He says that it would be comparatively easy to increase yields by more intensive farming methods. Yet, it is common knowledge that the yield per acre of most crops is smaller on small farms than on large ones--therefore, agricultural produce in the future would

(1) See Chapter IV, Subheading 6, "Agriculture".

be less, not more than in the past.

Operation No. 4. Morgenthau wants to make us believe that it is possible to eliminate the heavy industry of a country without in any way changing the structure of the rest of the economy. In fact, it is obvious that elimination of heavy industry means fantastic dislocations in other industries and elimination of millions of other jobs.

Operation No. 5. Morgenthau proposes that all Germans should be driven from the Ruhr Valley, their place in the mines to be taken by French, Belgian, Dutch and other workers. The truth is that the French, Belgians and Dutch don't even have enough miners to exploit their own mines. Therefore, Morgenthau's proposal amounts to the complete elimination of Europe's main production center, i.e., to the partial de-industrialization not only of Germany, but of the rest of Europe.

The list could be continued indefinitely and not one of the arguments can stand up in the light of inquiry, but they are not meant to. The book was written not for serious discussion, but to confuse the already bewildered and uninformed citizen.

A de-industrialized Germany means a weakened Europe, because the whole of Europe's economy is dependent on German industry. What Morgenthau proposes means catastrophe for the entire continent.

4. Potsdam Declaration.

The basic pattern of Allied peacemaking was unveiled at a Prussian palace in Potsdam in August, 1945, when the Big Three--Generalissimo Josef Stalin, Prime Minister Clement Attlee, and President Harry Truman--released a 7,000 word document detailing the results of their 17-day conference behind locked doors.

It was a hard peace they drew--harsher by far than the repressive provisions of the Treaty of Versailles. The Pact of Potsdam carved off great sections of Germany and handed them to Soviet Russia and Poland. It decreed the stripping of German factories--for the benefit of Russia--so as to leave Germany helpless not only to wage war, but to rebuild a great industrial economy.

The Potsdam conference left many critical issues unsolved. Not once is the Near or Middle East mentioned. The problems over the Dardanelles, Turkey, and the oil reserves of the Middle East no where are discussed in the declaration by the Big Three. Many major decisions were left for the proposed Council of Foreign Ministers, including, presumably, determination over Allied partition of Italian colonies.

Among the principal provisions in the Potsdam statement were these:

TERRITORIAL AGGRANDIZEMENT

Soviet Russia and her satellite, Poland, emerged from Potsdam with huge slices of German territory. The U.S.S.R., already enriched by many thousands of square miles wrested from old Poland under the terms of her pact with the Nazis, grabbed an additional 5,400 miles of East Prussia at Potsdam, and won Attlee-Truman acceptance of her demand for the ice-free German port of Koenigsberg.

Soviet-dominated Poland also did handsomely at Potsdam. She was given those parts of East Prussia which the Russians didn't take, Pomerania, and mouth-filling slices of West Prussia, and Upper and Lower Silesia. Included in the Polish booty is the old Polish Corridor, the former Free City of Danzig, and the Baltic shipbuilding center of Stettin, which has been under German control for 225 years.

Poland's western frontier will run to within a few miles of Berlin itself, along the Oder and the western Neisse Rivers to the Czechoslovakian frontier.

The Pact of Potsdam does not complete the dismemberment of Germany or the aggrandizement of the Allies. The claims of France, Belgium, and Holland on Germany's western frontier have not yet been filled by the conquerors.

STATUS OF GERMANY

The Pact of Potsdam establishes the principle that "in organizing the German economy, primary emphasis shall be given to the development of agriculture and peaceful domestic industries."

The Big Three asserted that they were determined to wipe out German Nazism and militarism for all time, but they assured the world that "it is not the intention of the Allies to destroy or enslave the German people. It is the intention of the Allies that the German people be given the opportunity to prepare for the eventual reconstruction of their lives on a democratic and peaceful basis."

Nevertheless, despite this pious assurance, the Big Three proceeded to make it as difficult as they could to enable the democratic forces in Germany to lead the way to reconstruction. The Pact of Potsdam provides for the complete disarmament of Germany--which every non-Nazi everywhere applauds--but in planning for this purpose, the Big Three ordered the deindustrialization of Germany, the looting of her factories by the Allies, principally Russia, and the saddling of such fantastic economic restrictions on conquered Germany as to render her reconstruction as a stable, democratic force in Europe virtually impossible.

Politically, the Potsdam planners provided that "all democratic political parties with rights of assembly and of public discussion shall be allowed and encouraged throughout Germany." However, "for the time being there can be no central German government." Local self-government is ordered restored throughout Germany on democratic principles and in particular "through elective councils as rapidly as is consistent with military security and the purposes of military occupation."

Similarly, "subject to the necessity of maintaining military security," the Big Three decreed that "freedom of speech, press, and religion shall be permitted, and religious institutions shall be respected."

REPARATIONS

The three victorious Powers agreed to exact their separate reparations from Germany only in the separate zones which each of the Big Three occupy and from "appropriate external assets," with one major exception. This is that Russia, in addition to the loot from her own zone, shall be entitled to take from areas occupied by American, Britain, and France 25 percent of the industrial capital equipment deemed not necessary to support a German "peace economy".

In the reparations clauses of the Potsdam statement Soviet Russia makes its domination of Poland official. "The U.S.S.R." announces the Pact of Potsdam, "undertakes to settle the reparation claims of Poland from its own share of reparations."

Payment of reparations, said the Big Three, "should leave enough resources to enable the German people to subsist without external assistance". Russia generously agreed to waive all claims to the Germal gold seized by the Allies, preferring instead the right to strip Germany of factories, machines, machine tools, and equipment desired by

the Soviet Union for her own development and expansion.

COUNCIL OF FOREIGN MINISTERS

The Big Three created a council of Foreign Ministers, of which France and China would also be represented, to meet regularly in London, beginning September 1, 1945. As its major task, "the Council shall be authorized to draw up, with a view to their submission to the United Nations, treaties of peace with Italy, Rumania, Bulgaria, Hungary, and Finland, and to propose settlements of territorial questions outstanding on the termination of the war in Europe."

OTHER POTSDAM PROVISIONS

1. The Kommandantur of Berlin, whereby control of Germany is maintained by Russian-American-British-French commanders in the German capital, is continued, but "so far as is practicable, there shall be uniformity of treatment of German population throughout Germany".

2. The Big Three announced that they would welcome membership in the United Nations organizatiin by the nations which remained neutral in World War II, except Franco Spain.

3. The Messrs. Truman and Attlee placed their stamp of approval on Stalin's Polish regime and reaffirmed their decision to have nothing to do with the London Polish group. Also, the Three Powers approved the decision of the Polish provisional government to hold "free and unfettered elections as soon as possible and on the basis of universal suffrage and secret ballot in which all democratic and anti-Nazi parties shall have the right to take part and to put forward candidates". (1)

(1) The Progressive, Volume 9, Number 33, August 13, 1945.

5. Byrnes Statement

The State Department on December 11, 1945, made public a broad-scale economic policy for Germany which called upon the United States and other Allied powers to finance a program of German imports in 1946 and 1947. There was no estimate of the amount of money involved in the proposed financial aid, but it was believed that the American share might run into hundreds of millions of dollars. The policy called for starting a slow recovery in the spring and was aimed at getting Germany back on its feet economically and industrially in 1948. This meant a "delayed process of reconstruction" in the Reich to give a head start on post war recovery to the European neighbors that Germany once overran. Under this plan the German standard of living in 1948 would not be allowed to exceed that of its European neighbors, but neither would Germany be reduced "to a country of foresters or goat herders". German industry was to be sharply restricted to minimum peacetime needs at the outset.

This State Department declaration was the first formal interpretation by any of the powers of the broad principles of German control agreed upon at the Potsdam Conference. The announced objective was to disarm Germany industrially and leave her at least as weak as neighboring countries.

The immediate cause of the statement was the result of the receipt of a list of six questions submitted by the War Department for guidance on how much industrial and economic resources were to be left to the German people. The statement covered a two-year period effective February 7, 1946, at the conclusion of which Germany should emerge as a weakened, but self-sufficient European nation, able to begin balancing needed imports against exports and to work toward repayment of the

financial assistance required from the Allied powers during the two-year reparation period. (1)

In an accompanying statement, Secretary of State, James F. Byrnes, set forth four American aims for Germany. (2)

1. To increase "to the greatest possible extent the export of coal from Germany" to liberated areas of Europe.
2. To organize the machinery necessary to carry out the reparations and disarmament program laid down by United States, Great Britain and Russia at the Potsdam Conference.
3. To set up national centralized German administration agencies for finance, transport communications, foreign trade and industry. (creation of these agencies hitherto blocked by French.)
4. To prevent "mass starvation in Germany, but not to give the Germans a higher priority on supplies than the rest of Europe.

Comments on the Byrnes Plan were immediately forthcoming from foreign capitals. British circles unofficially declared that an attempt by the United States to by-pass France and effect centralization plans for Germany would be met with strong objections from Russia.

The French reiterated their position that they would not even discuss centralization of Germany unless the Ruhr and Rhineland were excluded from Germany's scope and the administration of a centralized Germany confined to non-German hands.

(1) New York Times, December 11, 1945, P. 1.

(2) Text of Secretary Byrnes' Statement on German policy appears in Appendix.

Russia offered no official comment on the Byrnes Plan. (1)

6. Kilgore Committee Findings.

The United States Senate's Kilgore Committee received a mass of testimony regarding the close ties between Nazi cartels and some of America's most powerful corporations. This official data, collected in conquered Germany by special investigators for the War, Treasury and Justice Departments, supported wartime disclosures of the Senate Patents Committee and other investigating bodies showing how decisively such corporate giants as Standard Oil Company of New Jersey, the Aluminum Company of America, E. I. Du Pont de Nemours, the Dow Chemical Company, and the Ethyl Export Corporation contributed to the building of the Nazi's war machine. New evidence introduced by the Committee confirmed charges that I. G. Farben held back United States production of vital magnesium while its production expanded rapidly, and through Standard Oil, Farben prevented establishment of a synthetic rubber industry.

Also according to evidence placed before the Kilgore Committee, Farben got from Standard Oil both the patent processes and secret formulas for manufacturing high octane gasolene and tetraethyl lead; without which the Nazi Luftwaffe could never have attained its deadly potency.

"Farben exploited its cartel connections with American firms", the report adds, "not only toobtain these important processes, but also to obtain certain critical war materials. Because of its relations with Standard Oil, Farben, acting as agent for the German Government was able to contract for $20,000,000 worth of high-grade lubricants and gasolene. This fuel was transported to Germany and stored there". (2)

(1) Mangeot, Sylvain, "Byrnes Plan Heightens Confusion", Reuters, December 6, 1945.

(2) For further details refer to Chapter IV, Subheading 8, "Cartels".

7. Colmer Committee Report.

A House of Representatives Committee composed of eighteen Democrats and Republicans headed by Representative William M. Colmer of Mississippi, Democrat, returned from an extensive inspection of war-torn Europe in November, 1945, and released a report that verified the plight of Germany.

"A 'hard' peace," says the Committee report, "requires the elimination of eight or ten millions of Germans, it would be much more humane to eliminate them at once. The Committee feels that the American antipathy to theories of racism includes an antipathy to the theory of racial guilt. These Germans who will suffer will in the main be the very old who generally opposed Hitler and the very young who were hardly responsible for him".

"The Committee warns that the prevention of a catastrophe in Middle Europe will impose a further heavy burden on the taxpayers of the United States and upon our occupying armies, if the present contradictory directives stress reparations and the elimination of all industry that can even indirectly support a war as against the necessity for a minimum standard of living for the German people".

"The Committee cannot refrain from asking the simple question: 'What incentive under this plan exists for Germany to turn to democratic ways?' It is our belief that the American people will be held responsible, for we have allowed the Russians to partition Germany and strip the country of food, which is another way of saying the American taxpayer must pay for the looting done by the Red Army of the food needed to keep the German people from starving.

"The Committee believes that to strip Germany of her trans-

portation equipment and the machinery of her factories, can mean only one of two things:

(a) that a considerable part of the German population must be liquidated through disease, malnutrition, and slow starvation for years to come, with the resultant dangers to the rest of Europe from pestilence and the spread of plagues that know no boundaries.

(b) The continuation both of large occupation forces to hold down 'unrest' and the affording of relief mainly drawn from the United States to prevent actual starvation". (1)

8. Clay Report.

The report of United States economic experts to Lieut. General Lucius D. Clay, deputy military governor of the United States zone in Germany, recommended the restoration of enough German industry to maintain minimum living standards and to export needed materials to other parts of Europe. Destruction of Germany as an industrial nation, is viewed as a blow to Europe as well as to the Germans, and the Committee observes:

"If the whole future recovery of Europe is to be geared to fear of the bogey of Germany, reduced in its boundaries and stripped of its war making capacity, as modern Germany is, the recovery of Europe becomes a hopeless problem". (2)

(1) Lawrence, David, Boston Traveler, November 13, 1945.

(2) United States News, Volume XIX, Number 41, November 12, 1945.

CHAPTER VII

POSTWAR FUTURE OF GERMANY

A. Discord Among Allies.

The danger that the Allies might adopt rival policies toward Germany was apparent during the war years, for each of the Big Four had its own particular national interests in Germany. Recognizing these different emphases in the attitude of the various Allies towards Germany, the Big Three made several efforts during the war to coordinate their plans for the future of the Reich. These attempts, however, never succeeded in going beyond mere sketches of broad objectives and general descriptions of the kind of Germany the Allies were determined to destroy.

1. Hoover Study.

In an effort to secure a workable agreement in Germany, American occupation authorities authorized a group of experts, headed by Calvin Hoover, Duke University economist, to study the problem. Instead of attempting to ascertain the general European standard of living, these economists set out to find an average year in Germany, before the war boom began, as the basis for calculating the German's peacetime needs. Having selected 1932 as a year these experts used this standard as a yardstick for measuring the probable effects of the Potsdam plans, and concluded that their provisions for industrial disarmament and wholesale reparations were incompatible with Germany's peacetime needs. The authors of the report pointed out, in a memorandum submitted to the Allied Control Council for discussion, that Germany even before the war was forced to manufacture goods for export in order

to buy food abroad, and since the country now had lost its richest territories in the east, it is more dependent than ever on imports of food. The Committee recommended, therefore, that Germany be permitted a sufficient industrial revival to balance its exports at the 1932 level.

2. Russian Objections.

Russian members of the Allied Control Council found this American effort to interpret the Potsdam provision for Germany's peacetime needs highly unsatisfactory, however, because they realized that restoration of German production to its 1932 level would permit the removal of only a small amount of industrial reparations from Western Germany. Faced by sharp Russian protests, General Lucius Clay lamely declared the Hoover Report had been submitted merely as a basis for discussion and did not represent American policy. (2)

3. British View.

Although the British have not made any official attempts to define Germany's minimum requirements, Britain's concern lest Germany's economic collapse adversely affect its own economy and that of Western Europe predisposes London to be at least in general agreement with the findings of the Hoover Committee. (3) Russia, on the other hand, appears unperturbed by the effects on Europe of a marked decline in German industrial production, and the bilateral trade pacts the Soviet Union has signed with Rumania, Bulgaria and Hungary seem to indicate that the U.S.S.R. proposes to take over the role Germany formerly played in the economies of the central and eastern European countries. (4)

(1) New York Times, November 8, 1945, P. 29

(2) Ringwood, O. D., "Allies at Odds on Germany's Peacetime Needs", Foreign Policy Reports, Volume XXI, Number 16, November 1, 1945, P. 232.

(3) Economist, September 8, 1945, P. 322.

(4) New York Times, October 23, 1945, P. 3.

4. Difficulty in Devising Peacetime Economy.

The difficulties of reaching a working agreement on Germany's peacetime economic needs thus reflect the divisions, or at least the different emphases, that exist among the principal allies as they face the German problem. Until the Western allies and Russia succeed in resolving these difficulties and agree on a formula for determining Germany's minimum standard of living, the nations charged with the occupation of the Reich will find themselves hampered in their attempts to disarm German industry and settle reparations claims, as well as in their efforts to undertake the orderly reconstruction of Europe.

B. Shift in United States--British Viewpoint.

After expenditure of nearly $200,000,000,000 to win a war in Europe, a figure of $700,000,000 is beginning to complicate an argument over how to make that victory stick. The $700,000,000 represents the annual cost of supporting American forces that are to occupy Germany.

An issue now is arising over the question of who should pay the $700,000,000, the German people or the American tax-payers, On the surface, that appears to be a very simple issue, with American taxpayers inclined to be unanimous in nominating the German people as payers. Actually, the issue involved is fundamental and is upsetting the agreements signed by President Truman at Potsdam.

1. Expensive Supporting Prostrate Germany.

IF AMERICAN TAXPAYERS are to bear the cost of supporting American troops in Germany, they will have to find about $700,000,000 a year to provide pay, subsistence, travel and other costs. That is a minimum figure for 400,000 men and assumes that considerable food and some materials can come from the Germans. It takes no account of any cost of relief supplies for the German people.

IF GERMANS ARE FORCED to bear the cost of supporting American troops in Germany, then the Germans must be permitted to work hard enough to produce a surplus of goods for export so that they can pay for imports required to support occupying forces. But, if permitted to work that hard, then the Germans must have an industry in which to work. If they have an industry, that industry cannot be destroyed or moved to France, Holland or Belgium and it cannot be shipped to Russia in the way agreed upon by the Big Three at Potsdam.

Four years went by before U.S., Britain and France bumped against that issue after World War 1. It has taken about two months to discover after World War II that Germany either could pay reparations on a continuing basis out of exports, or she could be denied exports and then default on reparations other than those involved in taking German physical assets.

THE CHOICE between these two courses is being pointed up by developments. At Potsdam, the decision of President Truman was that German industry should be stripped down to a level that would permit the German people to have a living standard no higher than that of the average of nations in Europe. That decision rested upon the apparent conclusion that the American people would bear an important part of the cost of occupying Germany in order to make sure that the German people did not rebuild an industry with which to prepare for a third war.

2. A Solution.

THE PROBLEM is one of assuring Germany an industrial base that will permit her to sell abroad about $700,000,000 worth more than she buys so that she may pay part of the cost of occupation and have a living standard equal to the average expected in Europe by 1949.

THE SOLUTION OFFERED is to permit Germany to retain a large part of her strictly nonwar industry. It is proposed, for example, that Germany retain steel capacity of about 10,000,000 tons. Present capacity is 19,000,000 tons. Production in pre-Hitler Germany of 1932, a depression year was 5,500,000 tons. Synthetic oil, synthetic rubber, most synthetic nitrogen plants and some machine-tool capacity would be marked for destruction or removal. So would aircraft, shipbuilding and armament plants. Coal mining would be stimulated.

THE EFFECT of this proposed solution would be to encourage industrial activity in the part of Germany not occupied by Russia. It would depend upon disarmament of Germany in terms of actual weapons, rather than in terms of industries destroyed. It would deny to Russia important industrial facilities that she now expects to receive from Western Germany under terms of the Potsdam Agreement. Russia gets 25 percent of all machinery and materials tagged for removal. If few are tagged, Russia's share is small. (1)

C. Industrial Restoration.

With her industries almost completely destroyed and her cities reduced to stone quarries and masses of rubble, German militarism will be no threat for a long time. The population changes make the dominant race myth no longer tenable. By 1970 according to the Office of Population Research, Russia (1940 area) will have 43 million young men of ages 15 to 35. All north-west and central Europe (all countries west of Russia except Poland and Lithuania) will have only 30 million of the same ages, of which Germany's portion will be about one-third. These figures take no account of the effect of World War II, which will reduce the figures for Germany disproportionately, nor of the vast additions to Russian-dominated territory since 1940.

(1) United States News, Volume XIX, Number 38, October 19, 1945, P. 19.

The stage is set for Germany's conversion to new ideals, but whether this is accomplished will depend largely on British and American aid in the rebuilding of German prosperity.

1. Competition and Markets.

The restoration of German industry means the restoration of an industrial competitor, and largely by Anglo-American aid. Two theories here contend for acceptance.

One holds that Germany should be de-industrialized. This is said to be for the purpose of preventing her military resurgence; but it is also, in part, a rationalization of the desire to capture German markets. This view neglects the importance of German industry for the general rehabilitation of Europe, which is demanded on both humanitarian and political grounds. It also neglects the effects of unilateral action by Russia in coordinating German interests with her own.

The hope, especially cultivated in England, of taking over former German markets in southeastern Europe has waned since Russia blithely laid hands on those promised lands.

German rearmament can be prevented by factory inspection as long as effective will to do so lasts. Nothing can prevent rearmament when such determination ceases.

The alternative view favors the speedy rehabilitation of German industry. The basic reason for this is political: to increase hope and cultivate a new political orientation, to check further social disorganization in Germany, and facilitate the restoration of civilized life throughout central Europe. (1)

(1) Hankins, Frank H., "A Plea for Industrial Restoration", The Progressive, Volume IX Number 28, July 2, 1945.

2. Bernard Baruch's Contention.

Bernard Baruch stakes the future peace and prosperity of the world on the disarmament and industrial crippling of Germany and Japan. He would prevent the products of their "sweated labor" from entering our markets and thus reducing our standard of living. He would thus raise the standard of living of the entire world--except, of course, in those two countries.

"We envisage the United States supplying the tools, machines, and equipment that will make the rest of the world as productive as we are" he said recently.

Nothing is seen here except illogicalness. If we must cease trade with all nations with lower standards of living, then we can trade with none. Germany had the highest standard outside of the English-speaking nations: Japan the highest among the billion population of Asia. Will the standard of living of the world be raised by cutting off their trade?

Industrial nations have long found in each other their best markets. Europe has long been our greatest buyer, and after Great Britain has come Germany. With some concessions on the tariff frontier, Germany can absorb nearly as much of our exports as all South America, and she would be as good a credit risk.

Nor is it true, as Baruch contends, that by destroying German industry we will increase our prosperity by capturing her former markets. We might, and doubtless shall, capture some of them, but on balance we are bound to lose. Most international trade is three-cornered. If Germany sells less, she will buy less, so that we shall find our own sales reduced both in Germany and among her own customers. It is for this reason that our tariff and the Ottawa Agreement proved so fatal in the '30's. What Baruch really advocates is scarcity all around.

To be sure, Germany has been a competitor; but international trade, in its economic aspects, is exactly like internal trade between sections of this country. One section does not profit by the impoverishment of another, even when it gets some of the latter's industries. The South has taken some of New England's cotton industry, but Southern prosperity has been more than compensated by increased purchases of the thousand and one products of other New England industries.

3. A Recommendation.

What to do with Germany is obviously a weighty problem, but here are two contentions:

(1) That the harsh treatment of the German people is not psychologically sound or politically astute.

(2) That the restoration of German industrial prosperity is both politically and economically wise from the standpoint of our own interests.

As the "New Statesman and Nation" of London, noting the widespread fear of a third world war, said:

"The real cause of alarm is that no one of the surviving great powers is restrained in its doings by obedience to a code of principles". (1)

D. Reparations.

1. World War I Experience.

After the first World War, the reparations bill was arrived at by adding all sorts of things--including pensions for war veterans and payments made to their families while they were in service--reached only $33,000,000,000. Germany was given 70 years to pay this reparations bill. She would not have finished, under the Young Plan, until 1988. (2)

(1) Hankins, Frank H., "A Plea for Industrial Restoration", The Progressive, Volume IX, Number 28, July 2, 1945.

(2) See Chapter 111, Subheading "Young Plan".

But still Germany failed to pay. The most comprehensive study sets the total that Germany paid up to the time of the Hoover moratorium in 1931 at 36,481,200,000 reichsmarks, or about $9,120,300,000. A great deal of this went to pay the costs of collection, for the army of occupation, for interest, and for various other expenses.

Germany tackled that debt with her industrial machine intact. Her people were hungry and there were food riots. But the plants were there, ready to make peacetime goods. This time, the German industrial plant has been shattered by bombs, and the transportation system completely disrupted and destroyed. (1)

2. Claims.

The total of the claims against Germany, even if only the most obvious damages to civilians are counted, far outrun her capacity to pay in full. The taking of all movable assets--raw materials, farm machinery, livestock, machine tools, even German labor--still leave a broad gap between the damage done and the recompense.

There are civilian victims in Europe by the millions. Property of all kinds has been destroyed. Even farm lands have been made unproductive. In Holland, broken dikes have flooded 300,000 acres with salt water, and it will take five years to restore the fertility. Vast Ukraine areas have been gashed and torn. From 70 to 80 percent of the livestock in some areas of Europe is gone, and city after city has been flattened.

3. Current Plan.

The Potsdam economic program for Germany, which was adopted virtually intact from the American Joint Chiefs of Staff directive sent to General Eisenhower on the eve of Germany's collapse, was accompanied

(1) United States News, Volume XIX, Number 39, October 26, 1945.

by a reparations plan, which was based on Russian proposals. Since the two sections of the Potsdam Agreement providing for the industrial disarmament of Germany and the collection of reparations were drafted separately, rather than as inter-dependent parts of a coherent whole, it has not been easy for the Allies to emerge with a consistent and workable economic policy for Germany. According to the terms of the reparations settlement, Russia secured a blank check for reparations in its own zone, where the Red Army has already dismantled large quantities of industrial plants and equipment. (1) In addition, Russia is entitled to twenty-five percent of whatever capital the United States, Great Britain and other countries entitled to reparations removed from the western zones. (2) The amount of reparations to be collected in the western zones was not definitely set, but February, 1946, (3) was fixed as the deadline for completion of the reparations bill, which was to be computed by the Allied Control Council under policies formulated by the Allied Commission on Reparations. Meanwhile, the commanders in the western zones have made advance deliveries of reparations from their areas.

4. Russian Pressure.

Russia, having lost a large part of the factories and equipment in its western areas as a result of German devastation, has been exerting pressure on Britain and the United States since the Potsdam Conference to draw up a reparations bill that will call for the removal of a large number of western Germany's best industrial plants

(1) According to official British reports, the Russians had removed approximately ninety percent of the machinery and raw materials from Berlin's factories by the time the British and Americans entered Berlin early in July, 1945. London Times, August 9, 1945.

(2) Fifteen percent of these reparations to be conditional on deliveries to the British and American zones of food, timber, coal, ptoash, and other resources from the Russian, and ten percent to be delivered without payment of any kind in return.

(3) The deadline is almost two months overdue at the time of this writing.

and equipment. Early this fall, an extraordinary State Committe, appointed to ascertain Russia's war damages, declared that the Soviet Union had suffered 679 billion rubles' worth of damages by the Nazis, and "Pravda" promptly declared that this figure represented Russia's minimum claim. (1) Moscow has also requested that the machinery of some of the most valuable plants in the British, French and American zones--such as the Opel motor works, I. G. Farben, and the chemical and dye trust, be included in its share of the reparations. (2)

5. Attitude of the Western Powers.

Despite Russian pressure for more speedy collection of reparations, the western powers have thus far made only token payments from their zones, announcing that various large war-production plants are being dismantled for delivery as reparations. In those cases in which reparations can be collected in the form of plants for making armaments, synthetic oil and rubber, and chemicals used for warfare, there is no disagreement among the Allies as to the meaning of the Potsdam provisions for removing industrial equipment from western Germany. But serious disagreements have developed in connection with industrial plants not restricted to military purposes, for the Allies have not yet succeeded in reaching an understanding on the question of what definite types and numbers of industries are needed for Germany's "Approved post-war peacetime needs".

(1) Embassy of the Union of Soviet Socialist Republics, "Information Bulletin," September 18, 1945, Page 1. Figures given by the Committee are based on the U.S.S.R.'s state prices of 1941.

(2) New York Times, October 5, 1945.

E. Postwar Occupation Problems.

The State and War Departments have estimated the required period of occupation of Germany as ten to twenty-five years in duration. It is difficult to understand how a German economy can be reconstructed and the country made self-supporting while four armies occupy four zones of the country, which for all intents and purposes are separate entities maintaining distinct frontiers. Two of the occupying forces have stripped their zones of foodstuffs, industrial equipment, and live off the land.

1. Withdrawal Required for Recovery.

A nation stripped of her frontiers and industrial wealth with over twenty million refugees expelled from ex-propriated lands crowded within its reduced borders will have great difficulty in recovering economically under the bayonets of four occupying armies. Despite outside assistance from the United States and Great Britain plus agitation of those powers for a centralized control of Germany it is doubtful if either Russia or France will agree unless they are rewarded handsomely.

History has proved that an occupied country will never produce as well as a country ruled in theory at least by its own countrymen. The Nazi occupied countries proved this adage correct, and the friction between occupying forces and the civilian population is an important morale factor. In Japan the plan of occupation sets forth the promise that over a pre-determined period of time (estimated at five years) troops will be gradually withdrawn and the reins of government turned over to civilian officials whose democratic sympathies have been established.

2. Preventing Rearmament.

The rapid and unprecedented conversion of peacetime industry to war production in the United States proved the difficulty of differentiating between those industries classified as essential to a

peacetime economy and those necessary in time of war. In attempting to devise a peacetime economy for Germany, the Allied Control Council has become increasingly aware of this difficulty. On February 2, 1946, however, the Council abolished nine of Germany's key industries including synthetic gasolene, rubber, ammonia, primary aluminum and magnesium, ball and taper bearings, certain war chemicals, and even heavy farm tractors and heavy machine tools. This order was qualified with a provision making it "subject in cases to the necessity for providing exports to pay for imports, and to availability in world markets". (1)

It would appear that as long as the Allied Control Commission has the will to rigidly inspect and exercise supervisory control over German industry no problem need arise. When the Allied nations become lax and allow Germany to expand and rearm openly, as was the case in the 1930's, the resulting catastrophe will be of their own making.

3. Disposition of the Ruhr.

The costly deadlock in the Allied Control Council, initiated in November 1945, and still effective, has set the victorious powers back a year in disposing of and rehabilitating Germany. France with the backing of Russia has been the instigator of the deadlock despite pressure and counter proposals of the United States to by-pass France and secure approval of the Council by a majority vote rather than the unanimous assent required at present. The bone of contention is the vital Ruhr industries which France feels are a threat to her security while under German control. The United States has contended that to detach the Ruhr from Germany will prove such a handicap that the restoration of Germany to Europe's economy would prove impossible.

(1) Boston Globe, February 3, 1946.

British official experts are studying a plan to establish a four-power corporation to run Germany's Ruhr industries for a previously arrived at duration. Directors appointed by the United States, Great Britain, Russia, and France would administer the corporation which would operate industries that could only be maintained for the benefit of the general European economy. (1)

F. A Strong Germany--Two Views.

1. Can't Be Kept Down by Economic Force.

The people in America and Britain, who have been saying that the Potsdam plan for Germany's economic recovery would not work, now have strong support in the report of the experts advising the Office of Military Government. The experts, headed by the able Prof. Calvin Hoover, included well-known practical industrialists.

In the main, this report makes the point that, with the loss of her eastern territories, Germany will have to be more, rather than less, of an industrial nation than before. In the face of this, the position taken by Henry Morgenthau, Jr., becomes fairly fantastic.

The report reveals very sharply the divergence of views between the Russians and the British with regard to the future of Germany. The best example of this divergence is in the estimates of the steel production to be allowed. The Russians proposed 3,000,000 tons annually. The British proposed 11,000,000 tons. The United States, at first, held the compromise figure of 7,000,000 tons, but has now revised that figure upward to 10,000,000 tons. Since steel production is one important measure of industrialization, it is important to note that the British-

(1) Boston Globe, February 3, 1946.

American figure is approximately twice the German steel production in 1932.

The Potsdam plan was to allow Germans no higher living standards than that enjoyed by their European neighbors. The experts accept this standard, but point out that in order to achieve it in many industrial lines, Germany must be allowed more, rather than less, production than before the war. This is because exports are essential to secure the food supply for what remains of Germany after the rich eastern provinces have been removed.

There is also the necessity of producing enough to enable Germany to make payments on foreign investments in Germany and on the large debit clearing balances, which Germany had accumulated at the end of the war.

Once more, the inexorable facts of economics break in upon political and military judgments.

The truth of it all is that no plan by which a nation is to be held down by economic sanctions will work. If Germany is to be kept harmless, it must be by military and political, not economic force. (1)

2. We Did Not Fight War to Help Them.

If some Germans were to come forward with a demand that Germany must be allowed to export 2,898,000,000 marks' worth of goods a year, the world would be inclined to answer with a short, crude laugh. Yet, says, the New York Times, precisely this plan has been put forward--by Americans; by American advisers attached to our Office of Military Government.

The plan rests on a mass of contradictions. It is gravely explained that Germany needs these exports mainly to pay the Allies for

(1) Moley, Raymond, Boston Globe, December 7, 1945.

the cost of occupation, at the rate of about $5 per soldier per day.

It is admitted that, so far as Germany's domestic economy is concerned, she will come out fairly even, with at most a trade deficit of only 161,000,000 marks a year. That is an item of no importance, in world trade terms; it comes to about $40,000,000 or less than 50 cents per German per day, and the Allies are entitled to ask the Germans to pull in their belts 50-cents-ayear's worth, and do without.

But, our experts say, Germany needs an additional 2,737,000,000 marks a year to pay the Allies for the cost of occupation, and chiefly for that reason, ought to be allowed to produce and sell vast quantities of coal, machinery, chemicals and precision and optical instruments.

But the main purpose of occupation is to see to it that German industry does not revive as a threat to world peace! To permit German industry to revive in order to pay the costs of an occupation which is designed to keep it from reviving is like financing a safety-first campaign through the sale of firecrackers.

The suggestion that the German industries involved will not be war industries, but merely innocent producers of machinery, chemicals and precision goods ought to bring a giggle, at least, from every American manufacturer of machinery, chemicals and precision goods who converted for war work during recent years.

The Russians may be inclined to assume that the American plan is directed against them, and expresses our desire to build up a German bastion against the rise of Soviet power. Why must we make Germany come out even? We did not fight this war to produce an orderly Germany in a disorderly world. Why can't we let the Germans, those captains of

disorder, clean up their own mess, an educational device known to every parent and every teacher? (1)

G. Unsolved Problems.

Almost one year after V-E Day, the Allies find themselves confronted in occupied Germany by a number of unsolved problems which fall under three main headings.

1. Inconsistencies in Planning.

In the first place, there are several inconsistencies among the various Potsdam plans for Germany that have made it difficult to carry out certain provisions of the settlement at any particular moment without interfering with the execution of other prescribed terms. The drastic territorial revisions in Germany's eastern frontiers have been accompanied by measures for industrial disarmament and wholesale reparations that are making it all the more difficult for Germany to support its population. For example, the Germans in Czechoslovakia and Hungry, as well as in the areas ceded to Poland and Russia, have been unceremoniously evicted from their homes and deported to the Reich. At the same time, however, the Allies maintain that they do not want these measures to interfere with the maintenance in Germany of a subsistance standard of living. This standard is obviously necessary, not merely because of humanitarian considerations on the part of the Allies, who are not willing to adopt the depopulation techniques employed by the Nazis, but because of the political objectives set forth at Potsdam. The Big Three have declared that they wish to aid in the eventual establishment of democratic institutions in Germany--a goal which will obviously be unattainable if the present economic situation in Germany does not improve.

(1) Grafton, Samuel, Boston, Globe, December 7, 1945.

2. Diverging Policies.

Policies in the Allied zones of occupation appear to be diverging more and more, with the result that a united policy in Germany--on which so much depends not only in Germany, but also in the realm of inter-Allied relations--is being seriously compromised. Although the official Allied plan is to maintain Germany as a unit, under the supervision of the Allied Control Council in Berlin, in practice Germany is partitioned into the four segements outlined for purposes of military occupation. Between these military zones, there are distinct frontiers which are incompatible with the agreed policy of securing uniformity of treatment of the civilian population throughout Germany. Since it is French opposition to the Potsdam terms that constitutes the most important immediate obstacle to the successful operation of the central control machinery, efforts should be made to end the deadlock created by the French representative in the Allied Control Council. The other Allies should, first of all, seek the cooperation of France by attempting to reach a compromise settlement on the questions of the Rhineland and the Ruhr that will satisfy the French desire for security against Germany. If this fails, the Allies might re-examine the provision for unanimous decisions by the Allied Control Council in favor of a majority rule. A divided Germany should be avoided at all costs, since it would definitely encourage the further division of Europe and endanger the alliance that won the war and is the only hope for establishing a framework for keeping the peace.

3. Filling of Gaps Created by Destruction of Nazism.

The gravest shortcoming of Allied policy in Germany, as revealed by the record of the first year of occupation, is that there

is an absence of any concerted measures to fill the gap created by the destruction of Nazism. The Russians obviously want a left-wing government based on land-holding peasantry and well-disciplined trade unions while the British and Americans, who tend to regard the Weimar Republic as the norm for Germany--have carried out no land reforms and given no definite encouragement to the reestablishment of unions. In order to coordinate these divergent views on the type of post-war regime, Germany should have, it is of the utter most importance that the Allies maintain adequate and able control over the Reich during the conversion period. If the corps of American civilian administrators scheduled to relieve the military government group in June, 1946, is much better qualified than its predecessors, the United States may still fulfill its obligations in Germany. If it is unable to do so, however, Americans will have little basis for objecting to the development of political tendencies in the Reich of which they disapprove for the United States will have lost its position in Germany by default. (1)

(1) Hadsel, Winifred N., "Allied Military Rule in Germany", Foreign Policy Reports, Volume XXI, Number 16, November 1, 1945.

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APPENDIX I

TABLES

Total Receipts From German Taxes and Customs Duties

(Reichsmarks)

1928-1929	9,023,000,000
1932-1933	6,647,000,000
1935-1936	9,654,000,000
1937-1938	13,964,000,000
1938-1939	17,000,000,000 *

* Estimate

TABLES

Average Size of German Corporations *

	Capital Stock in 1,000 RM		
	1928-29	1938-39	1939-40
Producers' Goods	3,120	6,592	6,874
Consumers' Goods	1,290	1,675	1,845
Luxuries	639	993	?
Building Trades and Materials	1,062	1,375	1,565
Chemicals	3,791	7,579	8,380
Transportation (Private)	4,138	3,076	?
Water, Gas & Electricity	7,302	12,532	13,446
Banks	2,932	5,405	6,326
Financial Holding Companies	8,409	12,070	?
Insurance Companies	2,078	3,209	3,219
All Corporations	1,958	3,397	3,798

* Averages for various industries were computed by dividing capital stock for a given industry by the number of corporations for that industry. The average for all corporations was obtained by dividing the total capital stock by the total number of corporations.

TABLES

Transportation

	1929	1932	1937
Rolling Stock			
Motor Vehicles (1,000)			
Motorcycles	608	866	1,327
Automobiles	432	549	1,108
Motor Omnibuses	11	12	17
Trucks and Lorries	144	174	322
Railroads (1,000)			
Locomotives	26	24	24
Coaches	90	91	87
Freight Cars	660	639	587
River Boats			
With Motor Power	4,872	4,841	5,440
Without Motor Power	14,557	12,944	12,441
Traffic Carried			
Airplane			
Passengers Carried (1,000)	97	99	323
Freight & Mail Carried (tons)	2,456	2,503	8,721
Railroads			
Passengers (million)	2,057	1,352	1,874
Freight (Million tons)	531	307	547
River Traffic			
Freight (1,000 tons)	140,669	73,744	133,080

TABLES

German Foreign Trade

	Exports		Imports
	Semi-Finished And Finished Products	Foodstuffs	Raw Materials
1890	2,148,000,000	1,397,000,000	1,797,000,000
1913	7,536,000,000	3,049,000,000	5,003,000,000

TABLES

German Railroads (kilometers)

	Mileage in Operation	Increase Per Decade
1835	6	
1845	2,300	2,300
1855	8,290	5,990
1865	14,690	6,400
1875	27,930	13,240
1885	37,650	9,720
1895	46,560	8,910
1905	56,980	10,420
1915	62,410	5,430

TABLES

German National Income
(Reichmarks)

1929	75,900,000,000
1932	45,200,000,000
1936	64,900,000,000
1937	71,000,000,000
1938	76,000,000,000 *

* Without Austria and Sudetenland. It is noteworthy that while Germany only in 1938 regained the national income of 1929, the national income in England in 1937 already exceeded that of 1929 by almost 20 percent.

TABLES

Germany
Number Gainfully Employed

	1882	1907	1925 V	1933
		(three ciphers omitted)		
Agriculture & Forestry	7,135	8,557	9,763	9,343
Industry and Crafts	5,988	9,981	13,479	13,053
Commerce & Communications	1,420	3,441	5,185	5,939
Private & Public Service	984	1,712	2,188	2,699
Domestic Service	1,358	1,465	1,394	1,296
	16,885	25,156	32,009	32,296

Percentage of Total

Agriculture & Forestry	42.3	34.0	30.5	28.9
Industry and Crafts	35.5	39.7	42.1	40.4
Commerce & Communications	8.4	13.7	16.2	18.4
Private & Public Service	5.8	6.8	6.8	8.4
Domestic Service	8.0	5.8	4.4	3.9
	100.0	100.0	100.0	100.0

TABLES

German Foreign Trade

(Without re-export; in marks)

	Exports	Imports
1872	2,492,000,000	3,465,000,000
1880	2,977,000,000	2,844,000,000
1890	3,410,000,000	4,273,000,000
1900	4,753,000,000	6,043,000,000
1910	7,475,000,000	8,934,000,000
1913	10,097,000,000	10,770,000,000

APPENDIX II

THE GERMAN SETTLEMENT *

It is an irony of history that the terms for Germany decided at Potsdam should have been published within forty-eight hours of the dropping of the first atomic bomb. One may wonder what future historians will make--in such a context--of the victorious statesmen's conception of security. If one bomb can annihilate Koenigsberg, do the Russians gain much by annexing it? What possible defensive importance can be attached to a frontier on the Oder--or anywhere else? Can the ban on German production of aircraft and sea-going vessels have any bearing on war-making power in the Atomic Age? Once again we are reminded of the appalling gap between man's adult scientific mind and his political infantilism. It is as though the victors, in the age of the tank, were making a peace of bows and arrows. It would, however, be grossly unfair to blame the statesmen at Potsdam for failing to arrange a settlement in keeping with scientific and strategic possibilities which the scientists themselves are not yet able to predict. The charge against them is not that they are making a bad peace in a new unpredictable scientific context. It is that they are making a peace that would be bad in any context.

It is not their aim to make a Carthaginian peace. The Potsdam Declaration makes this clear. A German community is to survive--decentralised, perhaps, but still a recognisable national unit with, eventually, a central government. Straight away, political parties and trade union activity, the democratic freedoms, are to be restored,

* Terms imposed on Reich viewed by "The London Economist" as a Hitlerian peace--Breakdown of Potsdam Conference controls and a renewal of threat of war expected in ten years.

and the Allies state that their aim is "to prepare for the eventual reconstruction of German political life on a democratic basis and for eventual peaceful co-operation in international life by Germany."

The aim is unexceptionable; but how is it to be attained? A peace of "no indemnities and no annexations" is clearly impossible; after all that has happened, no risks of another German aggression can be run. But if there are to be safeguards and prohibitions, they must not completely contradict the final avowed purpose of reincorporating Germany in a peaceful Europe. Nor must they place too great a strain, physical or moral, upon the victors, for the worst peace of all is a peace that is first imposed and then is not enforced. In practice, the two problems merge. A political or economic control onerous and minute enough to drive the Germans into violent revulsion is likely to be so costly for the Allies to maintain in terms of manpower, and so difficult for them to defend in terms of their own public opinion--at least in the West--that they might be easily manoeuvred and cajoled out of enforcing it. Ideally, the terms imposed on Germany ought, therefore, while offering a genuine safeguard against future war, to be such that the Allies are reasonably certain of enforcing them. They ought also, in their degree of severity, to be such as not to render hopeless the ultimate reconciliation of Germany.

Do the Potsdam terms fulfil these conditions? There can be only one answer. They do not. The political conditions may propose a return to democracy. The territorial and economic terms make it certain that this political objective will not be achieved. It is now as good as certain that in the East the German frontier will lie along the Oder and the Western Neisse. Russia takes Koenigsberg and a large part of

East Prussia. The rest of the territory is transferred to Poland to "administer" until the Peace Conference, when the final decision on the fate of these lands will be taken--a face-saving formula which does not mask the fact of annexation. The French claim to the left bank of the Rhine has been postponed, but will now be difficult to resist. Nothing is said in the Potsdam Declaration of the Czechs' claims. They too will be pressed all the more vigorously now. At the same time, the principle of mass expulsions of Germans from annexed territory or from neighbouring states has been accepted. The Poles and the Czechs have been asked to halt in their expulsions--but only so that the work can be done in a more orderly manner. The final result of these sweeping changes of frontiers and populations will be to put between 50 and 60 million Germans to live in a territory not much bigger than Great Britain.

To sustain even a moderate standard of living for such a densely populated mass, the Germans would require a high degree of industrialisation. But the economic plans of Potsdam seem to point in the opposite direction. It is true that the terms permit to Germany "average living standards not exceeding the average standards of living of European countries (excluding the United Kingdom and the USSR)." But this is evidently to be an upper, not a lower, limit; nor is it made clear how this extremely vague level is to be reached. The Allies say that they will put "primary emphasis...on the development of agriculture and peaceful domestic industries...and control German industry and all economic and financial international transactions...with the aim of preventing Germany from developing a war potential."

The policy, be it noted, is not to prevent Germany from using its war potential, but to prevent it from having one. Since, in modern

industry, it is almost impossible to distinguish between plant and processes of wartime value from those of purely peacetime use, this policy, literally interpreted, involves the large-scale deindustrialisation of Germany.

This conclusion is borne out by the agreement reached on reparations. Apart from Germany's external assets, reparations are now to take one form only--the removal of industrial plant from Germany. The Russians will provide for the Poles out of their zone of occupation. In addition, they will receive 25 per cent of any industrial capital removed from the western zones, although 15 per cent is to be conditional on certain deliveries of food, coal, timber and potash from the Russian zone. (It should be observed that this arrangement gives Russia a vested interest in the severity of the Western Powers' exactions; any moderation would be a blow at Russia.) The remaining 75 per cent of the Western deliveries will be shared out among the Western Allies. The transfer is to be completed in two years. There will apparently be no reparations in money or in kind after that date.

The Germans will be allowed to keep only such plant as is necessary for their peacetime industry. The Reparations Commission is to decide how much this represents; the rest will be transferred, subject only to a final veto by the Military Governor in each zone.

Until the Reparations Commission has completed its survey, it is impossible to be dogmatic about the final effects of the economic settlement. Germany's present war industry is certainly overblown. If "munitions industries" are narrowly defined, a considerable transfer of plant from these industries might still, in theory, leave the Germans with sufficient industrial capacity to maintain a reasonable standard.

But in practice, when the bomb damage and the Reparations Commission have done their work, there will be very little left. The economic clauses and the reparations clauses, taken in conjunction, amount to the policy associated with the name of Mr. Morgenthau, that of the deindustrialisation and pastoralisation of Germany.

If this is indeed the policy, then it must surely be obvious that it will not work. The German community will not be reconciled to it. An economic slum is not a suitable background for the growth of democracy and the peaceful mind. A hostile, resentful and impoverished nation, 50 million strong, even without arms, is a certain source of trouble. The settlement will therefore need to be rigidly and minutely enforced. The Allies apparently accept this fact. They appear to envisage a close control over every aspect of German industry. Not only are all "arms, ammunition and implements of war...all types of aircraft and sea-going ships" to be banned, but "production of metals, chemicals, machinery and other items that are directly necessary to a war economy shall be rigidly controlled and restricted to Germany's approved post-war peacetime needs."

It is almost impossible to picture the army of inspectors, accountants, bureaucrats and technicians which would be necessary to achieve so searching a control. It would demand from the Allies precisely the kind of technical skill which is so urgently needed for reconstruction at home in all the Allied countries. It would place on the different Allies for a decade or more the responsibility of exporting their keenest officials to entirely unproductive work. The leaders at Potsdam appear to have seen this difficulty of manpower. In the most curious of all the curious sections in their Declaration they state that German

administrative machinery is to be established "to proclaim and assume administration of the economic controls established by the Control Council." Can the Allies seriously mean that they intend to rely upon Germans to supervise the impoverishment of Germany?

A system of economic control on the scale envisaged by the Potsdam Declaration is probably impossible under any conditions. It is certainly impossible as part of a treaty which public opinion in the Western world will find increasingly hard to defend. It might be possible to grow reconciled to annexations and uprootings if, in the end, the uprooted people were settling down to a reasonable standard of life. It might be possible to accept very much lower living standards in Germany if there were no unjust frontier settlements to add to public uneasiness. But the joining of a bad territorial and a bad economic settlement to a cumbrous and exacting system of Allied occupation and control seems precisely designed to create in a few years' time a revulsion of feeling in the West compared with which the revulsion against Versailles will be as nothing. Given such a revulsion, what hope would there be of maintaining the system of control which can alone perpetuate the rigid prohibitions under which Germany is to live? And once the process of relaxing the settlement had begun, it what fatal resurgence of German power might it not end? The Potsdam Settlement will not last ten years, and when it breaks down there will be nothing but the razor edge balance of international anarchy between civilization and the atomic bomb.

If the only possible alternative to the Potsdam Peace were to leave Germany uncontrolled and with an undiminished power of waging war, then naturally it would be necessary to try to attempt the

impossible--the maintenance of a minute control over every aspect of Germany's industrial life. But there are other possibilities, other methods of achieving the necessary safeguards which would not violate the two basic principles of a workable settlement--that in fifteen year's time a sufficient number of Germans, however grudgingly, would accept it and that, whether they do or not, the Allies would be as resolute and united in enforcing it as they were on VE Day itself. The essence of such an alternative would be to make the central control as simple, straightforward and obvious as possible. The point has frequently been argued in The Economist. Here it need only be briefly repeated. The simplest control to run is a control on the end-products of industry. Prohibit the Germans from producing any form of armaments, from V2s to small-arms ammunition. If in fifteen years' time the Allies are as resolute as ever in maintaining this prohibition, it will be sufficient. If they are not resolute enought even to forbid armaments, how can it be supposed that they will use force to prevent the rebuilding of a factory or the reconstruction of a blast-furnace?

Concentration on the central issue--the enforcement of total and long-term disarmament--does not, of course, preclude other terms. Some frontier changes might be accepted by the Western Powers even in the long run as reasonable and necessary. Some transfer of industrial capacity from the inflated German war industries would be possible. So, if it is really necessary, would the assignment to reparations of a certain proportion of the products of German industry over a limited number of years.

There is, of course, no prospect of Russian agreement to any such course. But if we know it to be right, must Russian opposition

condemn us to silent acquiescence in a course we know to be ruinous? Better by far to have the matter out now than to enter on a miserable course of endless quarrels over the enforcement of the unenforceable and the justification of the unjust. The Russians' determination to loot Germany may not be unconnected with their failure to obtain reconstruction credits in the Western countries. Every possible means should be tried of getting them to change their attitude. But if they will not, then the pursuit of truth and justice is a surer guide than any calculations of future alliances. We may not be able to alter what happens in the Russian zone, but we can at least disclaim responsibility for it. And we can follow our own convictions in the West, where what is left of Germany can be given the prospect, in the fullness of time, of achieving liberty, equality and prosperity within a Western Europe that is conscious of its political and economic unity. There is no other cure for the German sore on the body of Europe than to heal it. The healing may be a long and difficult process, but let us not rub salt in the wound. Let us not now abandon the only hope of some time escaping from an endless prospect of German wars.

The conviction that the peace proposed at Potsdam is a thoroughly bad peace is not based on any sentimental softening towards Germany. It is based on the belief that the system proposed is in the fullest sense unworkable. It offers no hope of ultimate German reconciliation. It offers little hope of the Allies maintaining its cumbrous controls beyond the first years of peace. Its methods of reparations reinforce autarky in Russia and consummate the ruin not only of Germany, but of Europe. Above all, it has in it not a single constructive idea, not a

single hopeful perspective for the post-war world. At the end of a mighty war fought to defeat Hitlerism, the Allies are making a Hitlerian peace. This is the real measure of their failure.

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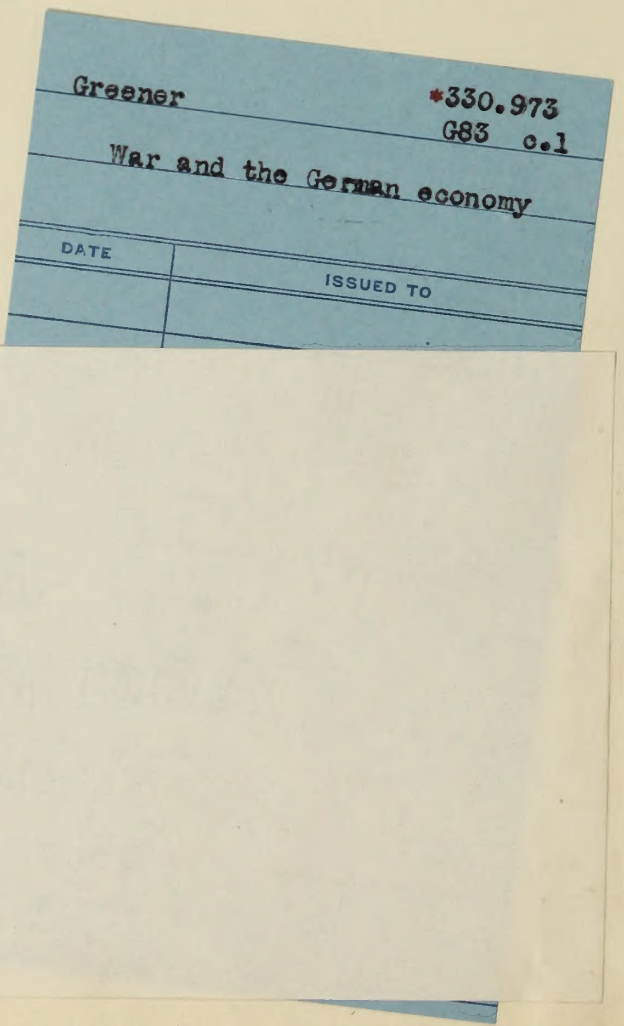

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